# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

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# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2019**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 1-34736**

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# SEMGROUP CORPORATION
**(Exact name of registrant as specified in its charter)**

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| | |
|---|---|
| **Delaware** | **20-3533152** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification Number)** |

**Two Warren Place**
**6120 S. Yale Ave, Suite 1500**
**Tulsa, OK 74136-4231**
**(Address of principal executive offices and zip code)**

**(918) 524-8100**
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: **Yes x No o**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files): **Yes** x **No o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| **Large Accelerated Filer** | x | **Accelerated filer** | o |
| **Non-accelerated filer** | o | **Smaller reporting company** | ☐ |
| | | **Emerging growth company** | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): **Yes** ☐ **No x**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Class A common stock | SEMG | New York Stock Exchange |

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| **Class** | | **Outstanding at October 31, 2019** | |
|---|---|---|---|
| Class A | Common stock, $0.01 par | 79,606,089 | Shares |
| Class B | Common stock, $0.01 par | — | Shares |

**SemGroup Corporation**

**TABLE OF CONTENTS**

**Cautionary Note Regarding Forward-Looking Statements**

Certain matters contained in this Quarterly Report on Form 10-Q include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

All statements, other than statements of historical fact, included in this Form 10-Q regarding the prospects of our industry, our anticipated financial performance, management’s plans and objectives for future operations, planned capital expenditures, business prospects, outcome of regulatory proceedings, market conditions, the expected merger of SemGroup with and into Merger Sub LLC, a wholly owned subsidiary of Energy Transfer LP (“Merger Sub”) pursuant to the Agreement and Plan of Merger between us and Energy Transfer and Merger Sub, dated September 15, 2019 (the “Merger”), and other matters, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as “may,” “will,” “expect,” “intend,” “estimate,” “foresee,” “project,” “anticipate,” “believe,” “plans,” “forecasts,” “continue” or “could” or the negative of these terms or variations of them or similar terms. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks, and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause actual results to differ include, but are not limited to, those discussed in Item 1A of this Form 10-Q, entitled “Risk Factors”, those discussed in Item 1A of our most recent Annual Report on Form 10-K, entitled “Risk Factors,” risk factors discussed in other reports and documents that we file with the Securities and Exchange Commission (the “SEC”) and the following:

- Our ability to consummate the Merger in the expected time frame or at all, including due to the inability to obtain all approvals necessary or the failure of other closing conditions;
- Our ability to generate sufficient cash flow from operations to enable us to pay our debt obligations and our current and expected dividends or to fund our other liquidity needs;
- Any sustained reduction in demand for, or supply of, the petroleum products we gather, transport, process, market and store;
- The effect of our debt level on our future financial and operating flexibility, including our ability to obtain additional capital on terms that are favorable to us;
- Our ability to access the debt and equity markets, which will depend on general market conditions and the credit ratings for our debt obligations and equity;
- The loss of, or a material nonpayment or nonperformance by, any of our key customers;
- The amount of cash distributions, capital requirements and performance of our investments and joint ventures;
- The consequences of any divestitures of non-strategic operating assets or divestitures of interests in some of our operating assets through partnerships and/or joint ventures;
- The amount of collateral required to be posted from time to time in our purchase, sale or derivative transactions;
- The impact of operational and developmental hazards and unforeseen interruptions;
- Our ability to obtain new sources of supply of petroleum products;
- Competition from other midstream energy companies;
- Our ability to comply with the covenants contained in our credit agreements, continuing covenant agreement and the indentures governing our notes, including requirements under our credit agreements and continuing covenant agreement to maintain certain financial ratios;
- Our ability to renew or replace expiring storage, transportation and related contracts;
- The overall forward markets for crude oil, natural gas and natural gas liquids;
- The possibility that the construction or acquisition of new assets or other business combination activities may not result in the corresponding anticipated benefits;
- Any future impairment of goodwill resulting from the loss of customers or business;

- Changes in currency exchange rates;
- Weather and other natural phenomena, including climate conditions;
- A cyber attack involving our information systems and related infrastructure, or that of our business associates;
- The risks and uncertainties of doing business outside of the U.S., including political and economic instability and changes in local governmental laws, regulations and policies;
- Costs of, or changes in, laws and regulations and our failure to comply with new or existing laws or regulations, particularly with regard to taxes, safety and protection of the environment;
- The possibility that our hedging activities may result in losses or may have a negative impact on our financial results; and
- General economic, market and business conditions.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this Form 10-Q, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements.

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Investors and others should note that we announce material company information using our investor relations website (www.semgroup.com), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our investors and the public about our company, our businesses and our results of operations. The information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media and others interested in our company to review the information we post on the social media channels listed on our investor relations website.

As used in this Form 10-Q, and unless the context indicates otherwise, the terms the "Company," "SemGroup," "we," "us," "our," "ours," and similar terms refer to SemGroup Corporation, its consolidated subsidiaries, and its predecessors. We sometimes refer to crude oil, natural gas, natural gas liquids (natural gas liquids, or "NGLs," include ethane, propane, normal butane, iso-butane, and natural gasoline), refined petroleum products, and residual fuel oil, collectively, as "petroleum products" or "products."

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**SEMGROUP CORPORATION**
**Unaudited Condensed Consolidated Balance Sheets**
**(In thousands, except par value)**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 214,007 | $ 86,655 |
| Accounts receivable (net of allowance of $2,461 and $2,244, respectively) | 570,006 | 562,214 |
| Receivable from affiliates | 281 | 295 |
| Inventories | 66,883 | 49,397 |
| Other current assets | 26,403 | 17,264 |
| Total current assets | 877,580 | 715,825 |
| Property, plant and equipment (net of accumulated depreciation of $721,958 and $607,903, respectively) | 3,927,645 | 3,457,326 |
| Equity method investments | 283,638 | 274,009 |
| Goodwill | 338,856 | 257,302 |
| Other intangible assets (net of accumulated amortization of $125,127 and $90,014, respectively) | 444,229 | 365,038 |
| Other noncurrent assets | 151,017 | 140,807 |
| Right of use assets, net | 89,665 | — |
| Total assets | $ 6,112,630 | $ 5,210,307 |
| **LIABILITIES, PREFERRED STOCK AND OWNERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 502,736 | $ 494,792 |
| Payable to affiliates | 870 | 3,715 |
| Accrued liabilities | 113,693 | 115,095 |
| Deferred revenue | 3,292 | 11,060 |
| Other current liabilities | 12,826 | 6,495 |
| Current portion of long-term debt | 15,912 | 6,000 |
| Total current liabilities | 649,329 | 637,157 |
| Long-term debt | 2,477,326 | 2,278,834 |
| Deferred income taxes | 132,980 | 55,789 |
| Other noncurrent liabilities | 141,632 | 38,548 |
| Commitments and contingencies (Note 8) | | |
| Redeemable preferred stock, $0.01 par value, $386,988 liquidation preference (authorized - 4,000 shares; issued - 350 shares) | 379,285 | 359,658 |
| Subsidiary redeemable preferred stock | 258,376 | — |
| SemGroup owners' equity: | | |
| Common stock, $0.01 par value (authorized - 190,000 shares; issued - 79,856 and 79,270 shares, respectively) | 790 | 786 |
| Additional paid-in capital | 1,409,772 | 1,615,969 |
| Treasury stock, at cost (277 and 126 shares, respectively) | (1,441) | (705) |
| Accumulated deficit | (107,859) | (73,971) |
| Accumulated other comprehensive loss | (53,403) | (51,247) |
| Total SemGroup owners' equity | 1,247,859 | 1,490,832 |
| Noncontrolling interests in consolidated subsidiaries | 825,843 | 349,489 |
| Total owners' equity | 2,073,702 | 1,840,321 |
| Total liabilities, preferred stock and owners' equity | $ 6,112,630 | $ 5,210,307 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SEMGROUP CORPORATION**
**Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**
**(Dollars in thousands, except per share amounts)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Revenues: | | | | |
| Product | $ 399,679 | $ 487,693 | $ 1,336,914 | $ 1,421,751 |
| Service | 98,965 | 86,122 | 278,974 | 282,368 |
| Storage | 41,144 | 41,914 | 124,001 | 126,601 |
| Lease | 3,873 | 3,937 | 11,789 | 12,517 |
| Other | 18,749 | 14,330 | 52,904 | 48,162 |
| Total revenues | 562,410 | 633,996 | 1,804,582 | 1,891,399 |
| Expenses: | | | | |
| Costs of products sold, exclusive of depreciation and amortization shown below | 377,174 | 468,871 | 1,274,126 | 1,377,092 |
| Operating | 73,619 | 64,835 | 214,823 | 224,871 |
| General and administrative | 29,662 | 21,904 | 84,729 | 71,267 |
| Depreciation and amortization | 61,489 | 53,598 | 184,536 | 155,889 |
| Loss (gain) on disposal or impairment, net | (373) | (383) | 7,119 | (2,125) |
| Total expenses | 541,571 | 608,825 | 1,765,333 | 1,826,994 |
| Earnings from equity method investments | 9,065 | 14,528 | 35,711 | 41,493 |
| Operating income | 29,904 | 39,699 | 74,960 | 105,898 |
| Other expenses (income), net: | | | | |
| Interest expense | 39,663 | 35,318 | 115,225 | 113,683 |
| Foreign currency transaction loss (gain) | 801 | (983) | (476) | 4,625 |
| Other income, net | (1,075) | (400) | (3,401) | (1,883) |
| Total other expenses, net | 39,389 | 33,935 | 111,348 | 116,425 |
| Income (loss) before income taxes | (9,485) | 5,764 | (36,388) | (10,527) |
| Income tax expense (benefit) | (4,019) | (2,697) | (14,710) | 16,773 |
| Net income (loss) | (5,466) | 8,461 | (21,678) | (27,300) |
| Less: net income attributable to noncontrolling interest | 7,042 | — | 23,256 | — |
| Net income (loss) attributable to SemGroup | (12,508) | 8,461 | (44,934) | (27,300) |
| Less: cumulative preferred stock dividends | 6,773 | 6,317 | 19,971 | 17,360 |
| Less: cumulative subsidiary preferred stock dividends | 2,604 | — | 6,288 | — |
| Less: accretion of subsidiary preferred stock to redemption value | 255 | — | 14,241 | — |
| Net income (loss) attributable to common shareholders | $ (22,140) | $ 2,144 | $ (85,434) | $ (44,660) |
| Net income (loss) | $ (5,466) | $ 8,461 | $ (21,678) | $ (27,300) |
| Other comprehensive income (loss), net of income taxes | (6,317) | 3,352 | 6,837 | 27,703 |
| Comprehensive income (loss) | (11,783) | 11,813 | (14,841) | 403 |
| Less: net income attributable to noncontrolling interests | 7,042 | — | 23,256 | — |
| Less: other comprehensive income (loss) attributable to noncontrolling interests | (4,605) | — | 8,993 | — |
| Comprehensive income (loss) attributable to SemGroup | $ (14,220) | $ 11,813 | $ (47,090) | $ 403 |
| Net income (loss) per common share (Note 15): | | | | |
| Basic | $ (0.28) | $ 0.03 | $ (1.09) | $ (0.57) |
| Diluted | $ (0.28) | $ 0.03 | $ (1.09) | $ (0.57) |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SEMGROUP CORPORATION**
**Unaudited Condensed Consolidated Statements of Changes in Owners' Equity**
**(Dollars in thousands)**

| | Three Months Ended September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Owners' Equity |
| **June 30, 2019** | $ 790 | $ 1,453,679 | $ (1,421) | $ (95,351) | $ (51,691) | $ 811,340 | $ 2,117,346 |
| Net income (loss) | — | — | — | (12,508) | — | 7,042 | (5,466) |
| Other comprehensive loss, net of income taxes | — | — | — | — | (1,712) | (4,605) | (6,317) |
| Dividends paid | — | (37,193) | — | — | — | — | (37,193) |
| Non-cash preferred stock dividends | — | (6,657) | — | — | — | — | (6,657) |
| Unvested dividend equivalent rights | — | (489) | — | — | — | — | (489) |
| Non-cash equity compensation | — | 2,808 | — | — | — | — | 2,808 |
| Non-cash subsidiary preferred stock dividends | — | (2,550) | — | — | — | (2,450) | (5,000) |
| Accretion of subsidiary preferred stock to redemption value | — | (255) | — | — | — | (247) | (502) |
| Contributions from noncontrolling interests | — | — | — | — | — | 33,170 | 33,170 |
| Cash distributions to noncontrolling interests | — | — | — | — | — | (18,407) | (18,407) |
| Issuance of common stock under compensation plans | — | 429 | — | — | — | — | 429 |
| Repurchase of common stock | — | — | (20) | — | — | — | (20) |
| **Balance at September 30, 2019** | $ 790 | $ 1,409,772 | $ (1,441) | $ (107,859) | $ (53,403) | $ 825,843 | $ 2,073,702 |

| | Three Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Owners' Equity |
| **June 30, 2018** | $ 785 | $ 1,696,865 | $ (699) | $ (82,983) | $ (29,450) | $ 1,584,518 |
| Net income | — | — | — | 8,461 | — | 8,461 |
| Other comprehensive income, net of income taxes | — | — | — | — | 3,352 | 3,352 |
| Dividends paid | — | (37,022) | — | — | — | (37,022) |
| Non-cash preferred stock dividends | — | (6,193) | — | — | — | (6,193) |
| Unvested dividend equivalent rights | — | (342) | — | — | — | (342) |
| Non-cash equity compensation | — | 2,701 | — | — | — | 2,701 |
| Issuance of common stock under compensation plans | 1 | 509 | — | — | — | 510 |
| **Balance at September 30, 2018** | $ 786 | $ 1,656,518 | $ (699) | $ (74,522) | $ (26,098) | $ 1,555,985 |

**SEMGROUP CORPORATION**
**Unaudited Condensed Consolidated Statements of Changes in Owners' Equity**
**(Dollars in thousands)**

| | Nine Months Ended September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Owners' Equity |
| **December 31, 2018** | $ 786 | $ 1,615,969 | $ (705) | $ (73,971) | $ (51,247) | $ 349,489 | $ 1,840,321 |
| Adoption of ASU 2018-02 | — | — | — | 10,884 | (10,884) | — | — |
| Adoption of ASC 842 | — | — | — | 162 | — | — | 162 |
| Net income (loss) | — | — | — | (44,934) | — | 23,256 | (21,678) |
| Other comprehensive income, net of income taxes | — | — | — | — | 8,728 | 8,993 | 17,721 |
| Dividends paid | — | (112,929) | — | — | — | — | (112,929) |
| Non-cash preferred stock dividends | — | (19,627) | — | — | — | — | (19,627) |
| Unvested dividend equivalent rights | — | 395 | — | — | — | — | 395 |
| Non-cash equity compensation | — | 7,672 | — | — | — | — | 7,672 |
| Equity issuance to noncontrolling interest | — | (64,525) | — | — | — | 448,443 | 383,918 |
| Non-cash subsidiary preferred stock dividends | — | (3,657) | — | — | — | (3,514) | (7,171) |
| Accretion of subsidiary preferred stock to redemption value | — | (14,241) | — | — | — | (13,685) | (27,926) |
| Contributions from noncontrolling interests | — | — | — | — | — | 103,691 | 103,691 |
| Cash distributions to noncontrolling interests | — | — | — | — | — | (90,830) | (90,830) |
| Issuance of common stock under compensation plans | 4 | 715 | — | — | — | — | 719 |
| Repurchase of common stock | — | — | (736) | — | — | — | (736) |
| **Balance at September 30, 2019** | $ 790 | $ 1,409,772 | $ (1,441) | $ (107,859) | $ (53,403) | $ 825,843 | $ 2,073,702 |

| | Nine Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Owners' Equity |
| **December 31, 2017** | $ 786 | $ 1,770,117 | $ (8,031) | $ (50,706) | $ (53,801) | $ 1,658,365 |
| Adoption of ASC 606 | — | — | — | 11,513 | — | 11,513 |
| Net loss | — | — | — | (27,300) | — | (27,300) |
| Other comprehensive income, net of income taxes | — | — | — | — | 27,703 | 27,703 |
| Dividends paid | — | (111,445) | — | — | — | (111,445) |
| Non-cash preferred stock dividends | | (11,023) | | | | (11,023) |
| Unvested dividend equivalent rights | — | (406) | — | — | — | (406) |
| Non-cash equity compensation | — | 8,246 | — | — | — | 8,246 |
| Issuance of common stock under compensation plans | 2 | 1,029 | — | — | — | 1,031 |
| Retirement of treasury stock | (2) | — | 8,031 | (8,029) | — | — |
| Repurchase of common stock | — | — | (699) | — | — | (699) |
| **Balance at September 30, 2018** | $ 786 | $ 1,656,518 | $ (699) | $ (74,522) | $ (26,098) | $ 1,555,985 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SEMGROUP CORPORATION**
**Unaudited Condensed Consolidated Statements of Cash Flows**
**(Dollars in thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Cash flows from operating activities: | | |
| Net loss | $ (21,678) | $ (27,300) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 184,536 | 155,889 |
| Loss (gain) on disposal or impairment of long-lived assets, net | 7,119 | (2,125) |
| Earnings from equity method investments | (35,711) | (41,493) |
| Distributions from equity method investments | 35,700 | 41,489 |
| Amortization of debt issuance costs and discount | 7,396 | 5,628 |
| Deferred tax expense (benefit) | (21,494) | 1,793 |
| Non-cash equity compensation | 7,764 | 8,332 |
| Provision for uncollectible accounts receivable, net of recoveries | (128) | (97) |
| Foreign currency transaction loss (gain) | (476) | 4,625 |
| Inventory valuation adjustment | 2,834 | — |
| Changes in operating assets and liabilities (Note 16) | (31,143) | (10,326) |
| Net cash provided by operating activities | 134,719 | 136,415 |
| Cash flows from investing activities: | | |
| Capital expenditures | (288,939) | (303,391) |
| Proceeds from sale of long-lived assets | 12,817 | 246 |
| Contributions to equity method investments | (25,456) | (7,466) |
| Payments to acquire business, net of cash acquired | (488,297) | — |
| Proceeds from business divestitures | — | 146,735 |
| Distributions in excess of equity in earnings of affiliates | 15,838 | 15,730 |
| Net cash used in investing activities | (774,037) | (148,146) |
| Cash flows from financing activities: | | |
| Debt issuance costs | (13,241) | (4,720) |
| Borrowings on credit facilities and issuance of senior notes, net of discount | 600,104 | 1,139,500 |
| Principal payments on credit facilities and other obligations | (394,965) | (1,376,649) |
| Proceeds from subsidiary common stock issuance, net of offering costs | 448,443 | — |
| Proceeds from subsidiary preferred stock issuance, net of offering costs | 223,280 | 342,299 |
| Contributions from noncontrolling interests | 103,691 | — |
| Distributions to noncontrolling interests | (90,830) | — |
| Repurchase of common stock for payment of statutory taxes due on equity-based compensation | (736) | (699) |
| Dividends paid | (112,929) | (111,445) |
| Proceeds from issuance of common stock under employee stock purchase plan | 523 | 228 |
| Net cash provided by (used in) financing activities | 763,340 | (11,486) |
| Effect of exchange rate changes on cash and cash equivalents | 3,330 | (494) |
| Change in cash and cash equivalents | 127,352 | (23,711) |
| Cash and cash equivalents at beginning of period | 86,655 | 93,699 |
| Cash and cash equivalents at end of period | $ 214,007 | $ 69,988 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## 1. OVERVIEW

SemGroup Corporation is a Delaware corporation headquartered in Tulsa, Oklahoma. The terms “we,” “our,” “us,” “SemGroup,” the “Company” and similar language used in these notes to the unaudited condensed consolidated financial statements refer to SemGroup Corporation and its subsidiaries.

### *Basis of presentation*

The accompanying condensed consolidated balance sheet at December 31, 2018, which is derived from audited financial statements, and the unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”). These financial statements include all normal and recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position of the Company and the results of its operations and its cash flows.

Our condensed consolidated financial statements include the accounts of our controlled subsidiaries. All significant transactions between our consolidated subsidiaries have been eliminated. Outside ownership interests in consolidated subsidiaries are reported as noncontrolling interests in the condensed consolidated financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Although management believes these estimates are reasonable, actual results could differ materially from these estimates. The results of operations for the three months and nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the full year ending December 31, 2019.

Pursuant to the rules and regulations of the SEC, the accompanying condensed consolidated financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with U.S. GAAP. Certain reclassifications have been made to conform previously reported balances to the current presentation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2018, which are included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC.

Our significant accounting policies are consistent with those described in our Annual Report on Form 10-K for the year ended December 31, 2018.

### *Merger Agreement*

On September 15, 2019, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Energy Transfer LP, a Delaware limited partnership (“ET”) and Nautilus Merger Sub LLC (“Merger Sub”), a Delaware limited liability company and a newly formed, wholly owned subsidiary of ET, whereby SemGroup will be acquired by ET in a unit and cash transaction, including the assumption of debt and other liabilities (the “Merger”).

Under the terms of the Merger Agreement, which has been unanimously approved by the Boards of Directors of both companies, SemGroup stockholders will receive $6.80 per share in cash and 0.7275 of an Energy Transfer common unit for each SemGroup share (the “Merger Consideration”).

Each share of SemGroup Series A Cumulative Perpetual Convertible Preferred Stock outstanding immediately prior to the effective time will, at the election of the holders of a majority of such shares:

- convert into SemGroup stock; or
- be exchanged for a “Substantially Equivalent Security” (as defined in the Certificate of Designations); or
- be redeemed by SemGroup for cash at a price per share equal to 101% of the liquidation preference.

Each holder of SemGroup stock issued upon conversion of shares of SemGroup Preferred Stock will receive the Merger Consideration in exchange for such shares.

The equity consideration received is expected to be treated as a tax-free transaction. The transaction is expected to close in December 2019, subject to SemGroup stockholder approval and other customary closing conditions. The SemGroup stockholder meeting is set for December 4, 2019.

**1. OVERVIEW,** Continued

***Recently adopted accounting pronouncements***

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. For public entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those years and early adoption is permitted in the year prior to the effective date. We adopted the standard at January 1, 2019, and recorded a $10.9 million adjustment from accumulated other comprehensive income to retained earnings upon adoption.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", as amended ("ASC 842"), which amends the existing lease guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by operating and finance leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU, as amended, also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. For public entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those years. We have elected the package of practical expedients such that we will not reassess whether any expired or existing contracts contain leases, we will not reassess the lease classification for any expired or existing leases and we will not reassess initial direct costs for any leases. Additionally, we have elected the practical expedient not to reassess certain land easements. As such, certain storage tanks, pipeline leases and land easements, which are not currently treated as leases, may become leases as these agreements are renewed or modified depending on the terms of the renewal or modification. Additionally, the classification for existing leases may change as agreements are renewed or modified. We adopted the standard at January 1, 2019, and recorded approximately $100 million of right of use assets and lease liabilities. We recognized a cumulative-effect adjustment to the opening balance of retained earnings of approximately $0.2 million as allowed by ASU 2018-11, "Leases (Topic 842): Targeted Improvements".

***Recent accounting pronouncements not yet adopted***

On August 27, 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement", which modifies the disclosure requirements in Topic 820 by removing, adding or modifying certain fair value measurement disclosures. For public entities, this ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. We will adopt this guidance in the first quarter of 2020. The impact is not expected to be material.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which introduces new guidance for estimating credit losses on certain types of financial instruments based on expected losses and the timing of the recognition of such losses. For public entities, this ASU is effective for annual periods beginning after December 15, 2019, and interim periods within those years and early adoption is permitted in the year prior to the effective date. We will adopt this guidance in the first quarter of 2020. The impact is not expected to be material.

**2. DISPOSALS OR IMPAIRMENTS OF LONG-LIVED ASSETS**

Our impairment tests of long-lived assets involve estimates of future cash flows for periods matching the estimated useful lives of our assets. Estimating future cash flows is inherently uncertain and is dependent upon several variables, including volume estimates and forecasted commodity prices for periods where market prices are not available. Volume estimates include assumptions regarding third party activity that can change over time with changing market conditions. The inherent uncertainties in estimating future cash flows means that future revisions in those estimates may occur having potentially material impact to our impairment tests.

***Nine months ended September 30, 2019***

On July 30, 2019, we completed the sale of certain South Texas crude oil trucking assets for $5.5 million in cash and recorded a small gain on disposal.

On July 17, 2019, we completed the sale of our Sherman, Texas natural gas gathering and processing assets of our U.S. Gas segment, for $5.3 million in cash. During the nine months ended September 30, 2019, we recorded an impairment of $5.2 million to write down these assets and related liabilities to net realizable value.

## 2. DISPOSALS OR IMPAIRMENTS OF LONG-LIVED ASSETS, Continued

During the nine months ended September 30, 2019, we recorded a $3.4 million impairment of our Nash, Oklahoma natural gas processing plant within our U.S. Gas segment. The impairment was triggered by the permanent idling of the Nash plant. We used a market approach to determine the fair value of the remaining assets based on assumptions of the equipment's condition, marketability and salvage value.

On February 25, 2019, we contributed 100% of the issued and outstanding equity interests in our wholly owned subsidiary, SemCAMS ULC, an Alberta unlimited liability company, in exchange for 51% of the common shares of SemCAMS Midstream ULC ("SemCAMS Midstream"), cash, a potential payment contingent on positive final investment decision of a specific project by SemCAMS Midstream, and earnout consideration in the form of a special share in SemCAMS Midstream entitled to dividend payments if either or both of two specific projects proceed and EBITDA thresholds pertaining to those projects are achieved. No gain or loss was recorded on the contribution as we retained control of the contributed subsidiary. Certain deferred tax impacts of the transaction were recorded as an adjustment to Additional Paid-In Capital. Refer to Note 3 for further information.

***Nine months ended September 30, 2018***

On April 12, 2018, we completed the sale of our U.K. operations, SemLogistics, for $73.1 million. We recorded a pre-tax gain on disposal of $0.4 million for the nine months ended September 30, 2018. The U.K. business contributed $5.4 million of pre-tax income for the nine months ended September 30, 2018, excluding the gain on disposal.

On March 15, 2018, we completed the sale of our Mexican asphalt business for $70.7 million. We recorded a pre-tax gain on disposal of $1.6 million for the nine months ended September 30, 2018. The Mexican asphalt business contributed $2.3 million of pre-tax income for the nine months ended September 30, 2018, excluding the gain on disposal.

## 3. ACQUISITIONS

***SemCAMS Midstream***

On January 9, 2019, a wholly owned subsidiary of SemGroup Corporation, SemCanada II, L.P., an Oklahoma limited partnership, and an affiliate of Kohlberg Kravis Roberts & Co. L.P. and wholly owned subsidiary of KKR Global Infrastructure Investors III L.P., KKR Alberta Midstream Inc., an Alberta corporation ("KKR"), entered into definitive agreements to create a new joint venture company that will own and operate midstream oil and gas infrastructure in Western Canada, SemCAMS Midstream, an Alberta unlimited liability corporation. SemGroup owns 51%, and KKR owns 49%, of SemCAMS Midstream, subsequent to close of the transactions described below.

***Share Purchase Agreement***

In connection with the formation of SemCAMS Midstream, on January 9, 2019, SemCAMS Midstream entered into a Share Purchase Agreement (the "Share Purchase Agreement") with Meritage Midstream Services III, LP ("Meritage") to acquire 100% of the issued and outstanding equity interests in Meritage Midstream ULC, an Alberta unlimited liability corporation ("Meritage ULC" and such acquisition, the "Meritage Acquisition"). On February 25, 2019, SemCAMS Midstream completed the Meritage Acquisition pursuant to the Share Purchase Agreement for a debt-free, cash purchase price of C$645.6 million (US$490.8 million at the February 25, 2019 exchange rate), subject to customary post-closing adjustments. The purchase price included C$152.3 million (US$115.8 million at the February 25, 2019 exchange rate) in reimbursements for estimated capital expenditures incurred from September 1, 2018, to the closing of the Meritage Acquisition (the "Meritage Closing").

Pursuant to the Share Purchase Agreement, SemCAMS Midstream has obtained a representation and warranty insurance policy to cover losses arising from breaches of representations and warranties by Meritage. Each party has agreed to indemnify the other for breaches of covenants and certain other matters, subject to certain exceptions and limitations.

***Investment and Contribution Agreement***

Concurrently with the execution of the Share Purchase Agreement, SemGroup, KKR and SemCAMS Midstream entered into an Investment and Contribution Agreement (the "Contribution Agreement"). On February 25, 2019, the Contribution (as defined below) closed immediately prior to the Meritage Closing (the "Contribution Closing"). Pursuant to the terms of the Contribution Agreement, each of SemGroup and KKR made the following contributions to SemCAMS Midstream: (i) SemGroup contributed 100% of the issued and outstanding equity interests in its wholly owned subsidiary, SemCAMS ULC, an Alberta unlimited liability company, (the "SemGroup Contribution") in exchange for (A) 51% of the common shares of SemCAMS Midstream, (B) a cash amount of C$645.6 million (US$490.8 million at the February 25, 2019 exchange rate) subject to adjustments for capital contributions to SemCAMS ULC by SemGroup and other customary adjustments, (C) a potential payment of C$14.7 million (US$11.2 million at the February 25, 2019 exchange rate) contingent on positive final investment decision of a specific project by SemCAMS Midstream, and (D)

**3. ACQUISITIONS**, Continued

earnout consideration in the form of a special share in SemCAMS Midstream entitled to dividend payments up to a maximum (pre-tax) aggregate amount of C$50.0 million (US$38.0 million at the February 25, 2019 exchange rate) if either or both of two specific projects proceed and EBITDA thresholds pertaining to those projects are achieved; and (ii) KKR contributed cash in the amount of C$785.6 million (US$597.2 million at the February 25, 2019 exchange rate), capital contributions to SemCAMS ULC by SemGroup and a payment of C$14.7 million (US$11.2 million at the February 25, 2019 exchange rate) contingent on the pursuit of a specific project (unrelated to the two projects referred to above) by SemCAMS Midstream, and other customary adjustments (the “KKR Contribution” and, together with the SemGroup Contribution, the “Contribution”) in exchange for (A) 49% of the common shares of SemCAMS Midstream and (B) 300,000 preferred shares in SemCAMS Midstream (representing C$300 million (US$228.1 million at the February 25, 2019 exchange rate) of KKR cash contribution) which will pay annual dividends of C$87.50 paid on a quarterly basis. SemCAMS Midstream may elect, for any of the first ten quarters following issuance of the preferred shares, to pay the dividends in-kind in the form of additional preferred shares. SemCAMS Midstream will have the right to convert the preferred shares into common shares in the event of an initial public offering of its common shares, at a conversion price equal to 92.5% of the IPO offering price. In connection with the issuance of the preferred shares, KKR received a C$6.0 million (US$4.6 million at the February 25, 2019 exchange rate) transaction fee from SemCAMS Midstream. See Note 10 for additional information.

Included within the C$645.6 million (US$490.8 million at the February 25, 2019 exchange rate) cash received by SemGroup are reimbursements of C$30.6 million (US$23.3 million at the February 25, 2019 exchange rate) for a 51% share of the deposit made pursuant to the Share Purchase Agreement. KKR’s cash contribution of C$785.6 million (US$597.2 million at the February 25, 2019 exchange rate) does not include C$29.4 million (US$22.4 million at the February 25, 2019 exchange rate), the 49% share of the deposit made pursuant to the Share Purchase Agreement, which was not reimbursed to KKR and forms part of the KKR Contribution.

On June 6, 2019, KKR paid, and SemGroup received, C$14.7 million (US$11.0 million at the June 6, 2019 exchange rate) associated with a positive investment decision of a specific project by SemCAMS Midstream. The payment was recorded as additional proceeds under the Contribution Agreement.

KKR and SemGroup have agreed to indemnify each other for breaches of covenants and certain other matters, subject to certain exceptions and limitations.

Upon the Contribution Closing, KKR and SemGroup entered into a unanimous shareholder agreement (the “Shareholder Agreement”) to cover corporate governance, transfer restrictions, funding obligations and other similar matters related to SemCAMS Midstream. The Shareholder Agreement includes customary restrictions on the activities of SemGroup and KKR that relate to the business of SemCAMS Midstream within a defined area of mutual interest surrounding the location in which SemCAMS Midstream will operate. In addition, the Shareholder Agreement includes certain liquidity rights that allow each of KKR and SemGroup to cause SemCAMS Midstream to pursue an initial public offering of its respective common shares after the third anniversary of the parties’ entry into the Shareholder Agreement.

***Purchase price allocation***

We are in the process of finalizing the determination of the fair value of consideration exchanged and assets and liabilities acquired at the acquisition date to record the acquisition of Meritage ULC. Further, the acquired business was not yet required to comply with ASU 2016-02 “Leases (Topic 842)”. The determination of the estimated fair values of the assets acquired, including intangible assets and goodwill, and liabilities assumed is not yet complete and adjustments to preliminary amounts could be material.

As of September 30, 2019, we have recorded the preliminary purchase price allocation as follows in USD at the February 25, 2019 exchange rate (in thousands):

| | |
|---|---|
| **Assets acquired** | |
| Cash | $ 2,756 |
| Accounts receivable | 29,040 |
| Other current assets | 60 |
| Property, plant and equipment | 327,637 |
| Intangible assets subject to amortization | 115,068 |

**3. ACQUISITIONS**, Continued

| | | |
|---|---|---|
| Goodwill | | 82,099 |
| Total assets acquired | $ | 556,660 |

| | | |
|---|---|---|
| **Consideration** | | |
| Cash | $ | 491,487 |
| Liabilities assumed | | |
| Accounts payable and accrued liabilities | | 32,150 |
| Other noncurrent liabilities | | 33,023 |
| Total liabilities assumed | | 65,173 |
| Total consideration | $ | 556,660 |

Finite-lived intangibles are amortized over their estimated useful lives. Customer contracts are being amortized over 20 years on a straight-line basis. Goodwill primarily relates to the location of the business and potential for future growth. SemGroup will be able to deduct 51% of the goodwill from the transaction for U.S. income tax purposes. Acquired property, plant and equipment has been assigned useful lives consistent with our accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

From the acquisition date through September 30, 2019, the preliminary purchase price allocation was adjusted to reduce accounts receivable by $0.3 million, property, plant and equipment by $3.0 million, and intangible assets subject to amortization by $0.5 million, partially offset by a decrease in other noncurrent liabilities of $0.5 million. Accordingly, goodwill recognized at acquisition of $78.8 million increased to $82.1 million as of September 30, 2019.

**4. EQUITY METHOD INVESTMENTS**

Our equity method investments consisted of the following (in thousands):

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| White Cliffs Pipeline, L.L.C. | $ 264,662 | $ 255,043 |
| NGL Energy Partners LP | 18,976 | 18,966 |
| Total equity method investments | $ 283,638 | $ 274,009 |

Our earnings from equity method investments consisted of the following (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| White Cliffs Pipeline, L.L.C. | $ 9,075 | $ 14,546 | $ 35,700 | $ 41,489 |
| NGL Energy Partners LP | (10) | (18) | 11 | 4 |
| Total earnings from equity method investments | $ 9,065 | $ 14,528 | $ 35,711 | $ 41,493 |

***White Cliffs Pipeline, L.L.C.***

We own a 51% interest in White Cliffs Pipeline, L.L.C. ("White Cliffs"), which we account for under the equity method. Certain unaudited summarized income statement information of White Cliffs for the three months and nine months ended September 30, 2019 and 2018, is shown below (in thousands):

## 4. EQUITY METHOD INVESTMENTS, Continued

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | $ 32,420 | $ 43,855 | $ 120,006 | $ 128,455 |
| Costs of products sold, exclusive of depreciation and amortization | $ (345) | $ (107) | $ (352) | $ (138) |
| Operating, general and administrative expenses | $ 5,907 | $ 5,514 | $ 22,766 | $ 17,511 |
| Depreciation and amortization expense | $ 9,064 | $ 9,624 | $ 27,592 | $ 28,821 |
| Net income | $ 17,794 | $ 28,825 | $ 70,000 | $ 82,262 |

We received cash distributions from White Cliffs of $15.1 million and $18.6 million for the three months ended September 30, 2019 and 2018, respectively. We received cash distributions from White Cliffs of $51.5 million and $57.2 million for the nine months ended September 30, 2019 and 2018, respectively.

The members of White Cliffs are required to contribute capital to White Cliffs to fund various projects. In 2018, we announced that we will convert one of the White Cliffs 12-inch carrier pipelines from crude service to natural gas liquids service. For the three months and nine months ended September 30, 2019, we contributed $5.4 million and $25.5 million, respectively, to fund the conversion project. For the three months and nine months ended September 30, 2018, we contributed $4.7 million and $6.5 million, respectively, to fund the conversion project. Remaining contributions related to the conversion project will be paid in 2019 and are expected to total $3.3 million. The project is expected to be completed during the fourth quarter of 2019.

### *NGL Energy Partners LP*

We own an 11.78% interest in the general partner of NGL Energy Partners LP (NYSE: NGL) (“NGL Energy”) which is being accounted for under the equity method in accordance with ASC 323-30-S99-1, as our ownership is in excess of the 3 to 5 percent interest which is generally considered to be more than minor. The general partner of NGL Energy is not a publicly traded company.

## 5. FINANCIAL INSTRUMENTS

### *Fair value of financial instruments*

We record certain financial assets and liabilities at fair value at each balance sheet date. The tables below summarize the balances of derivative assets and liabilities at September 30, 2019 and December 31, 2018 (in thousands):

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Netting (1) | Total - Net |
| **Assets:** | | | | | |
| Commodity derivatives (2) | $ 4,790 | $ — | $ — | $ (84) | $ 4,706 |
| Total assets | 4,790 | — | — | (84) | 4,706 |
| **Liabilities:** | | | | | |
| Commodity derivatives (2) | 84 | — | — | (84) | — |
| Interest rate swaps | — | — | 3,619 | — | 3,619 |
| Total liabilities | 84 | — | 3,619 | (84) | 3,619 |
| Net assets (liabilities) at fair value | $ 4,706 | $ — | $ (3,619) | $ — | $ 1,087 |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Netting (1) | Total - Net |
| **Assets:** | | | | | |
| Commodity derivatives (2) | $ 4,658 | $ — | $ — | $ (973) | $ 3,685 |
| Total assets | 4,658 | — | — | (973) | 3,685 |

**5. FINANCIAL INSTRUMENTS,** Continued

| | | | | | |
|---|---|---|---|---|---|
| **Liabilities:** | | | | | |
| Commodity derivatives (2) | 973 | — | — | (973) | — |
| Foreign currency forwards | — | 2,985 | — | — | 2,985 |
| Interest rate swaps | — | — | 1,482 | — | 1,482 |
| Total liabilities | 973 | 2,985 | 1,482 | (973) | 4,467 |
| Net assets (liabilities) at fair value | $ 3,685 | $ (2,985) | $ (1,482) | $ — | $ (782) |

(1) Commodity derivatives are subject to netting arrangements.
(2) Relates primarily to exchange traded futures. Gain and loss positions on multiple contracts are settled net on a daily basis with the exchange.

"Level 1" measurements are based on inputs consisting of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. These include commodity futures contracts that are traded on an exchange.

"Level 2" measurements are based on inputs consisting of market observable and corroborated prices for similar derivative contracts. Assets and liabilities classified as Level 2 include over the counter ("OTC") traded physical fixed priced purchases and sales forward contracts.

"Level 3" measurements are based on inputs from a pricing service and/or internal valuation models incorporating observable and unobservable market data. These could include commodity derivatives, such as forwards and swaps for which there is not a highly liquid market and therefore are not included in Level 2 above and interest rate swaps for which certain unobservable inputs are used in the valuation.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value levels. At September 30, 2019 and December 31, 2018, all of our physical fixed price forward purchases and sales commodity contracts were being accounted for as normal purchases and normal sales.

The following table summarizes changes in the fair value of our net financial liabilities classified as Level 3 in the fair value hierarchy (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net assets (liabilities) at beginning of the period | $ (3,676) | $ 110 | $ (1,482) | $ (1,228) |
| Transfers out of Level 3 | — | — | — | — |
| Realized/Unrealized gain (loss) included in earnings* | 31 | 268 | (2,163) | 1,487 |
| Settlements | 26 | (224) | 26 | (105) |
| Net assets (liabilities) at end of period | $ (3,619) | $ 154 | $ (3,619) | $ 154 |

*Gains and losses related to interest rate swaps are recorded in interest expense in the condensed consolidated statements of operations and comprehensive income (loss).

See Note 7 for fair value of debt instruments. The approximate fair value of cash and cash equivalents, accounts receivable and accounts payable is equal to book value due to the short-term nature of these items.

***Commodity derivative contracts***

Our consolidated results of operations and cash flows are impacted by changes in market prices for petroleum products. This exposure to commodity price risk is managed, in part, by entering into various commodity derivatives.

We seek to manage the price risk associated with our marketing operations by limiting our net open positions through (i) the concurrent purchase and sale of like quantities of petroleum products to create back-to-back transactions that are intended to lock in positive margins based on the timing, location or quality of the petroleum products purchased and delivered or (ii) derivative contracts. Our storage and transportation assets can also be used to mitigate time and location

**5. FINANCIAL INSTRUMENTS,** Continued

basis risks, respectively. All marketing activities are subject to our Comprehensive Risk Management Policy, Delegation of Authority policy and their supporting policies and procedures, which establish limits in order to manage risk and mitigate financial exposure.

Our commodity derivatives can be comprised of swaps, futures contracts and forward contracts of crude oil, natural gas and natural gas liquids. These are defined as follows:

*Swaps* – OTC transactions where a floating price, basis or index is exchanged for a fixed (or a different floating) price, basis or index at a preset schedule in the future, according to an agreed-upon formula.

*Futures contracts* – Exchange traded contracts to buy or sell a commodity. These contracts are standardized by the exchange in terms of quality, quantity, delivery period and location for each commodity.

*Forward contracts* – OTC contracts to buy or sell a commodity at an agreed upon future date. The buyer and seller agree on specific terms (price, quantity, delivery period and location) and conditions at the inception of the contract.

The following table sets forth the notional quantities for derivative instruments entered into (in thousands of barrels):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Sales | 3,406 | 2,704 | 12,514 | 10,467 |
| Purchases | 3,243 | 2,701 | 12,268 | 9,892 |

We have not designated any of our commodity derivative instruments as accounting hedges. We have recorded the fair value of our commodity derivative instruments on our condensed consolidated balance sheets in "other current assets" and "other current liabilities" in the following amounts (in thousands):

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Commodity contracts | $ 4,706 | $ — | $ 3,685 | $ — |

We have posted margin deposits as collateral with brokers who have the right of set off associated with these funds. At September 30, 2019 and December 31, 2018, our margin deposit balances were $2.5 million and $0.1 million, respectively. These margin account balances have not been offset against our net commodity derivative instrument (contract) positions. Had these margin deposits been netted against our net commodity derivative instrument (contract) positions as of September 30, 2019 and December 31, 2018, we would have had asset positions of $7.2 million and $3.8 million, respectively.

Realized and unrealized gains (losses) from our commodity derivatives were recorded to product revenue in the following amounts (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Commodity contracts | $ 4,315 | $ (1,247) | $ (3,405) | $ (13,477) |

***Interest rate swaps***

We have interest rate swaps which allow us to limit exposure to interest rate fluctuations. The swaps only apply to a portion of our outstanding debt and provide only partial mitigation of interest rate fluctuations. We have not designated the swaps as hedges; therefore, changes in the fair value of the swaps are recorded through current period earnings as a component of interest expense. At September 30, 2019 and December 31, 2018, we had interest rate swaps with notional values of $521.3 million and $524.3 million, respectively. At September 30, 2019 and December 31, 2018, the fair value of our interest rate swaps was $3.6 million and $1.5 million, respectively, which was reported within "other current liabilities" and "other noncurrent liabilities" in our condensed consolidated balance sheet. For the three months ended September 30, 2019 and 2018, we recognized realized and unrealized gains of $31 thousand and $0.3 million related to interest rate swaps, respectively. For the nine months ended September 30, 2019 and 2018, we recognized realized and

**5. FINANCIAL INSTRUMENTS,** Continued

unrealized losses of $2.2 million and realized and unrealized gains of $1.5 million related to interest rate swaps, respectively.

***Foreign currency forwards***

From time to time, we enter into foreign currency forwards primarily to purchase Canadian dollars to limit exposure to foreign currency rate fluctuations for capital contributions to our Canada segment primarily to fund capital projects. We have not designated the forwards as hedges; therefore, changes in the fair value of the forwards are recorded through current period earnings as a component of foreign currency transaction gains and losses. At September 30, 2019, we did not have any foreign currency forwards. At December 31, 2018, we had foreign currency forwards with notional values of $56.1 million. At December 31, 2018, the fair value of our foreign currency forwards was $3.0 million, which is reported within "other current liabilities" in our condensed consolidated balance sheet. For the three months ended September 30, 2019 and 2018, we recognized realized losses of $0.8 million and realized and unrealized gains of $1.0 million related to foreign currency forwards, respectively. For the nine months ended September 30, 2019 and 2018, we recognized realized gains of $0.5 million and realized and unrealized losses of $5.5 million related to foreign currency forwards, respectively.

***Concentrations of risk***

During the three months ended September 30, 2019, two customers, primarily of our U.S. Liquids segment, accounted for more than 10% of our consolidated revenue with revenues of $139.8 million. Three third-party suppliers, primarily of our U.S. Liquids segment, accounted for more than 10% of our consolidated costs of products sold with purchases of $142.8 million.

During the nine months ended September 30, 2019, two customers, primarily of our U.S. Liquids segment, accounted for more than 10% of our consolidated revenue with revenues of $480.7 million. Two third-party suppliers, primarily of our U.S. Liquids segment, accounted for more than 10% of our consolidated costs of products sold with purchases of $296.3 million.

At September 30, 2019, one third-party customer, primarily of our U.S. Liquids segment, accounted for approximately 12% of our consolidated accounts receivable.

**6. INCOME TAXES**

The effective tax rate was 42% and (47)% for the three months ended September 30, 2019 and 2018, respectively. The effective tax rate was 40% and (159)% for the nine months ended September 30, 2019 and 2018, respectively. The rate for the nine months ended September 30, 2019, is impacted by $1.1 million Canadian withholding tax paid on remittances to the U.S., non-controlling interests in Maurepas Pipeline, LLC and SemCAMS Midstream ULC for which taxes are not provided and a discrete tax benefit of $12.1 million on a statutory rate reduction enacted in Alberta, Canada. The rate for the nine months ended September 30, 2018, is impacted by a discrete tax expense related to the vesting of restricted stock in the amount of $1.7 million, a discrete tax expense of $10.0 million in Mexico on the sale of the 100% equity interest in our Mexican asphalt business and a discrete tax expense of $2.7 million on the foreign tax deduction offset to branch deferreds on the sale of our U.K. operations. Significant items that impacted the effective tax rate for each period, as compared to the U.S. federal statutory rate of 21%, include earnings in foreign jurisdictions taxed at different rates, foreign earnings taxed in foreign jurisdictions as well as in the U.S., since they are disregarded entities for U.S. federal income tax purposes, and the U.S. deduction for foreign taxes. These combined factors, and the magnitude of the permanent items impacting the tax rate relative to income from continuing operations before income taxes, result in rates that are not comparable between the periods.

We have a valuation allowance on a small portion of our state net operating loss carryovers with shorter carryover periods and a foreign tax credit carryover generated in tax years prior to 2014. We have not released the valuation allowance on the foreign tax credits due to the foreign tax credit limitation and the relative subjectivity of forecasts of the relational magnitude of U.S. and foreign taxable income in future periods, as well as the shorter carryover period available for the credits. Deferred tax assets are reduced by a valuation allowance when a determination is made that it is more likely than not that some, or all, of the deferred tax assets will not be realized based on the weight of all available evidence. Evidence which is objectively verifiable carries a higher weight in the analysis. The ultimate realization of deferred tax assets is dependent upon the existence of sufficient taxable income of the appropriate character within the

**6. INCOME TAXES,** Continued

carryback and carryforward period available under the tax law. Sources of taxable income include future reversals of existing taxable temporary differences, future earnings and available tax planning strategies.

We have analyzed filing positions in all of the federal, state and foreign jurisdictions where we are required to file income tax returns and determined that no accruals related to uncertainty in tax positions are required. All income tax years of the Company ending after the emergence from bankruptcy remain open for examination in U.S. jurisdictions under general operation of the statute of limitations, including special provisions with regard to net operating loss carryovers. In foreign jurisdictions, all tax periods prior to the emergence from bankruptcy are closed. The statute of limitations has not been waived with respect to any foreign jurisdictions post emergence and tax periods are open for examination in accordance with the general statutes of each foreign jurisdiction. Currently, there are no examinations in progress for our federal, state or foreign jurisdictions.

## 7. LONG-TERM DEBT

Our long-term debt consisted of the following (dollars in thousands):

| | Interest rate at September 30, 2019 | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| Senior unsecured notes due 2022 | 5.6250% | $ 400,000 | $ 400,000 |
| Senior unsecured notes due 2023 | 5.6250% | 350,000 | 350,000 |
| Senior unsecured notes due 2025 | 6.3750% | 325,000 | 325,000 |
| Senior unsecured notes due 2026 | 7.2500% | 300,000 | 300,000 |
| SemGroup $1.0 billion corporate revolving credit facility (1) | | | |
| Alternate base rate borrowings | — | — | 24,500 |
| Eurodollar borrowings | — | — | 95,000 |
| HFOTCO term loan B (2) | 4.8000% | 592,500 | 597,000 |
| HFOTCO tax exempt notes payable due 2050 | 2.9513% | 225,000 | 225,000 |
| SemCAMS Midstream term loan A(3) | | | |
| Banker's acceptance borrowings | 4.4840% | 264,309 | — |
| Prime rate borrowings | 5.4500% | 5 | — |
| SemCAMS Midstream C$525 million revolving credit facility (4) | | | |
| Banker's acceptance borrowings | 4.4961% | 64,190 | — |
| Prime rate borrowings | 5.4500% | 3,021 | — |
| SemCAMS Midstream KAPS Facility(5) | — | — | — |
| Unamortized premium (discount) and debt issuance costs, net | | (30,787) | (31,666) |
| Total long-term debt, net | | 2,493,238 | 2,284,834 |
| Less: current portion of long-term debt | | 15,912 | 6,000 |
| Noncurrent portion of long-term debt, net | | $ 2,477,326 | $ 2,278,834 |

(1) SemGroup $1.0 billion corporate revolving credit facility matures on March 15, 2021.
(2) HFOTCO term loan B is due in quarterly installments of $1.5 million with a final payment due on June 26, 2025.
(3) SemCAMS Midstream term loan A is due in quarterly installments of C$4.4 million beginning March 31, 2020 and increasing to C$6.6 million on March 31, 2022 with a final payment on February 25, 2024.
(4) SemCAMS Midstream C$525 million (US$396.5 million at the September 30, 2019 exchange rate) revolving credit facility matures on February 25, 2024.
(5) SemCAMS Midstream KAPS Facility matures on June 13, 2024.

**7. LONG-TERM DEBT,** Continued

***SemCAMS Midstream Credit Agreement***

On February 25, 2019, SemCAMS Midstream entered into a credit agreement, together with The Toronto-Dominion Bank, as administrative agent, providing for a C$350 million (US$264.3 million at the September 30, 2019 exchange rate) senior secured term loan facility and a C$450 million (US$339.8 million at the September 30, 2019 exchange rate) senior secured revolving credit facility. On June 13, 2019, SemCAMS Midstream entered into an amended and restated credit agreement (the "Credit Agreement"), which increased the senior secured revolving credit facility capacity to C$525 million (US$396.5 million at the September 30, 2019 exchange rate) and added a C$300 million (US$226.6 million at the September 30, 2019 exchange rate) senior secured construction loan facility (the "KAPS Facility"). The term loan facility and the revolving credit facility mature on February 25, 2024. The KAPS Facility matures on June 13, 2024. SemCAMS Midstream may incur additional term loans and revolving commitments in an aggregate amount not to exceed C$250 million (US$188.8 million at the September 30, 2019 exchange rate), subject to receiving commitments for such additional term loans or revolving commitments from either new lenders or increased commitments from existing lenders.

***Pledges and guarantees***

Our senior unsecured notes are guaranteed by certain subsidiaries. See Note 18 for additional information.

Our $1.0 billion corporate revolving credit facility is guaranteed by all of SemGroup's material wholly-owned domestic subsidiaries, with the exception of Maurepas Pipeline LLC and HFOTCO, and secured by a lien on substantially all of the property and assets of SemGroup Corporation and the other loan parties, subject to customary exceptions.

The HFOTCO term loan B and HFOTCO tax exempt notes payable are secured by substantially all of the assets of HFOTCO and its immediate parent, Buffalo Gulf Coast Terminals LLC. The HFOTCO tax exempt notes payable have a priority position over the HFOTCO term loan B.

The SemCAMS Midstream Credit Agreement is guaranteed on a non-recourse basis by each of SemGroup and KKR, limited to each respective entity's equity interests in SemCAMS Midstream, and fully guaranteed by any future material subsidiary of SemCAMS Midstream. The obligations under the Credit Agreement and related lender hedge instruments and cash management instruments are secured by a lien on substantially all of the property and assets of SemCAMS Midstream and the other loan parties, subject to customary exceptions.

***Letters of credit***

We had the following outstanding letters of credit at September 30, 2019 (dollars in thousands):

| | | | |
|---|---|---|---|
| SemGroup $1.0 billion revolving credit facility | 1.75% | $ | 27,335 |
| SemGroup secured bi-lateral (1) | 1.75% | $ | 24,394 |
| SemCAMS Midstream revolving credit facility | 2.50% | $ | 22,655 |
| SemCAMS Midstream secured bi-lateral (1) | 1.75% | $ | 3,693 |

(1) Secured bi-lateral letters of credit are external to the SemGroup $1.0 billion revolving credit facility and the SemCAMS Midstream C$525 million (US$396.5 million at the September 30, 2019 exchange rate) revolving credit facility and do not reduce availability for borrowing on the credit facilities.

***Capitalized interest***

During the nine months ended September 30, 2019 and 2018, we capitalized interest of $5.8 million and $9.6 million, respectively.

***Fair value***

We estimate the fair value of our senior unsecured notes based on unadjusted, transacted market prices near the measurement date. Our other long-term debts are estimated to be carried at fair value as a result of the recent timing of borrowings or rate resets. We estimate the fair value of our consolidated long-term debt, including current maturities, to be approximately $2.6 billion at September 30, 2019, which is categorized as a Level 2 measurement.

## 8. COMMITMENTS AND CONTINGENCIES

***QPSE***

On June 7, 2019, QPS Engineering LLC ("QPSE") filed an Original Petition against SemGroup Corporation in the District Court of Tulsa County in Tulsa, Oklahoma (the "Lawsuit"). QPSE claims it is entitled to payment of $22 million in fees, which are being withheld by Maurepas Pipeline, LLC as liquidated damages as allowed by the terms of an engineering, procurement and construction contract ("EPC Contract") between QPSE and Maurepas Pipeline, LLC for the construction of the Maurepas Pipeline. SemGroup Corporation is the guarantor of Maurepas Pipeline's obligations under the EPC Contract. QPSE also claims additional damages including attorney's fees and costs incurred in unspecified amounts. On July 5, 2019, SemGroup filed an answer and affirmative defenses denying QPSE's claims. Because of the uncertainties inherent in litigation, we cannot predict the outcome of the Lawsuit, nor can we predict the amount of time and expense that will be required to resolve it. We believe QPSE's claims are without merit and intend to defend vigorously against the Lawsuit. Withheld amounts are reflected as retainage payable, which is included in accounts payable on our condensed consolidated balance sheet, and the disposition of such amounts will ultimately impact the carrying value of the asset.

***Litigation related to the Merger***

On October 15, 2019, a putative class action lawsuit captioned Thompson v. SemGroup Corporation, et al., Case No. 1:19-cv-01948, was filed in the United States District Court for the District of Delaware. Also on October 15, 2019, a putative class action lawsuit captioned Walpole v. SemGroup Corp. et al., Case No. 1:19-CV-01957 was filed in the United States District Court for the District of Delaware. On October 18, 2019, a putative class action lawsuit captioned Topley v. SemGroup Corp. et al., Case No. 1:19-cv-09630 was filed in the United States District Court for the Southern District of New York. On October 28, 2019, a putative class action lawsuit captioned Lawrence v. SemGroup Corporation et al., Case No. 1:19-cv-02035 was filed in the United States District Court for the District of Delaware. On October 31, 2019 a lawsuit captioned Stallings v. SemGroup Corporation, et al., Case No. 1:19-cv-03108, was filed in the United States District Court for the District of Colorado. Each of the petitions names as defendants SemGroup and the members of the SemGroup board of directors. The plaintiffs in the above mentioned lawsuits allege purported claims challenging the Merger and the proxy statement/prospectus filed in connection with the Merger and seek, among other things, to enjoin the Merger. Plaintiffs claim that the proxy statement/prospectus is misleading. Plaintiffs allege, among other things, that the proxy statement/prospectus fails to disclose certain information concerning the Merger in violation of the Securities Exchange Act of 1934. Lawsuits similar to the above mentioned suits may be filed in the future. We cannot reasonably estimate a range of potential loss at this time. We believe that the claims asserted in these lawsuits are without merit and plan to vigorously defend against them.

***Environmental***

We may, from time to time, experience leaks of petroleum products from our facilities and, as a result of which, we may incur remediation obligations or property damage claims. In addition, we are subject to numerous environmental regulations. Failure to comply with these regulations could result in the assessment of fines or penalties by regulatory authorities.

The Kansas Department of Health and Environment (the "KDHE") initiated discussions during our bankruptcy proceeding regarding six of our sites in Kansas (five owned by U.S. Liquids and one owned by U.S. Gas) that KDHE believed, based on their historical use, may have had soil or groundwater contamination in excess of state standards. KDHE sought our agreement to undertake assessments of these sites to determine whether they are contaminated. We reached an agreement with KDHE on this matter and entered into a Consent Agreement and Final Order with KDHE to conduct environmental assessments on the sites and to pay KDHE's costs associated with their oversight of this matter. We have conducted Phase II investigations at all sites. Four sites are in various stages of follow-up investigation, remediation, monitoring, or closure under KDHE oversight. The environmental work at these sites is being completed under consent orders between Rose Rock Midstream Crude, L.P. and the KDHE. Two of the remaining sites have limited impacts to shallow soil and groundwater and the groundwater is currently being monitored on a semi-annual basis until such time that closure can be granted by the KDHE. No active remediation is anticipated for these two sites. The final two sites have required additional investigation and soil and groundwater remediation may be necessary to achieve KDHE closure. We do not anticipate any penalties or fines for these historical sites.

## 8. COMMITMENTS AND CONTINGENCIES, Continued

***Other matters***

We are party to various other claims, legal actions and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these claims, legal actions and complaints, after consideration of amounts accrued, insurance coverage and other arrangements, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain, and estimates of our consolidated liabilities may change materially as circumstances develop.

***Asset retirement obligations***

We will be required to incur significant removal and restoration costs when we retire our natural gas gathering and processing facilities in Canada. At September 30, 2019, we have an asset retirement obligation liability of $25.8 million, which is included within “other noncurrent liabilities” on our condensed consolidated balance sheets. This amount was calculated using the $140.1 million cost we estimate we would incur to retire these facilities, discounted based on our risk-adjusted cost of borrowing and the estimated timing of remediation.

The calculation of the liability for an asset retirement obligation requires the use of significant estimates, including those related to the length of time before the assets will be retired, cost inflation over the assumed life of the assets, actual remediation activities to be required, and the rate at which such obligations should be discounted. Future changes in these estimates could result in material changes in the value of the recorded liability. In addition, future changes in laws or regulations could require us to record additional asset retirement obligations.

Our other segments may also be subject to removal and restoration costs upon retirement of their facilities. However, we are unable to predict when, or if, our pipelines, storage tanks and other facilities would become completely obsolete and require decommissioning. Accordingly, we have not recorded a liability or corresponding asset, as both the amount and timing of such potential future costs are indeterminable.

***Purchase and sale commitments***

We routinely enter into agreements to purchase and sell petroleum products at specified future dates. We account for derivatives at fair value with the exception of commitments that have been designated as normal purchases and sales for which we do not record assets or liabilities related to these agreements until the product is purchased or sold. At September 30, 2019, such commitments included the following (in thousands):

| | Volume (Barrels) | Value |
|---|---|---|
| Fixed price purchases | 3,290 | $ 186,828 |
| Fixed price sales | 3,450 | $ 197,141 |
| Floating price purchases | 16,148 | $ 857,663 |
| Floating price sales | 18,675 | $ 911,289 |

Certain of the commitments shown in the table above relate to agreements to purchase product from a counterparty and to sell a similar amount of product (in a different location) to the same counterparty. Many of the commitments shown in the table above are cancellable by either party, as long as notice is given within the time frame specified in the agreement (generally 30 to 120 days).

Our U.S. Gas segment has a take-or-pay contractual obligation related to the fractionation of natural gas liquids through June 2023. The approximate amount of future obligation is as follows (in thousands):

| | |
|---|---|
| For year ending: | |
| December 31, 2019 | $ 2,517 |
| December 31, 2020 | 9,277 |
| December 31, 2021 | 7,489 |
| December 31, 2022 | 7,048 |
| December 31, 2023 | 2,913 |
| Total expected future payments | $ 29,244 |

## 8. COMMITMENTS AND CONTINGENCIES, Continued

Our U.S. Gas segment also enters into contracts under which we are responsible for marketing the majority of the gas and natural gas liquids produced by the counterparties to the agreements. The majority of U.S. Gas's revenues were generated from such contracts.

Our U.S. Liquids segment has minimum volume commitments for pipeline transportation of crude oil. The approximate amount of future obligations is as follows (in thousands):

| | | |
|---|---|---|
| For year ending: | | |
| December 31, 2019 | $ | 5,511 |
| December 31, 2020 | | 19,751 |
| December 31, 2021 | | 12,976 |
| December 31, 2022 | | 13,231 |
| December 31, 2023 | | 13,496 |
| Thereafter | | 6,816 |
| Total expected future payments | $ | 71,781 |

On May 14, 2019, SemCAMS Midstream announced a new asset joint venture with Keyera Corp. to construct a natural gas liquids (NGL) and condensate pipeline system to connect the liquids-rich Montney and Duvernay production areas of northwestern Alberta to the fractionation and condensate hubs in Fort Saskatchewan, Alberta. The total cost for the project is estimated to be C$1.3 billion (US$981.7 million at September 30, 2019 exchange rate) for which SemCAMS Midstream will be responsible for 50%. SemCAMS Midstream's noncontrolling interest holder is expected to contribute 49% of SemCAMS Midstream's construction costs. Construction is expected to begin in mid-2020 and be completed by the first half of 2022.

## 9. EQUITY

### *Equity issuances*

During the nine months ended September 30, 2019, 59,946 shares under the Employee Stock Purchase Plan were issued and 354,575 shares related to our equity-based compensation awards vested.

### *Equity-based compensation*

At September 30, 2019, there were 1,622,412 unvested shares that have been granted under our director and employee compensation programs. The par value of these shares is not reflected in common stock on the condensed consolidated balance sheets, as these shares have not yet vested. For certain of the awards, the number of shares that will vest is contingent upon our achievement of certain specified targets. If we meet the specified maximum targets, approximately 534,000 additional shares could vest.

The holders of certain restricted stock awards are entitled to equivalent dividends ("UDs") to be received upon vesting of the related restricted stock awards and will be settled in cash. At September 30, 2019, the value of the UDs related to unvested restricted stock awards was approximately $2.6 million.

During the nine months ended September 30, 2019, we granted 819,607 restricted stock awards with a weighted average grant date fair value of $14.80 per award.

### *Noncontrolling interests*

A 49% interest in our consolidated subsidiary, SemCAMS Midstream, in the form of common shares, is reported as a noncontrolling interest in our condensed consolidated financial statements.

A 49% interest in our consolidated subsidiary, Maurepas Pipeline, LLC, in the form of Class B shares of Maurepas Pipeline, LLC is reported as a noncontrolling interest in our condensed consolidated financial statements. The Class B shares provide for a monthly preference on Maurepas Pipeline, LLC distributions for the owners.

### *Common stock dividends*

The following table sets forth the quarterly common stock dividends per share declared and/or paid to shareholders for the periods indicated:

| Quarter Ending | Dividend Per Share | | Date of Record | Date Paid |
|---|---|---|---|---|
| March 31, 2018 | $ | 0.4725 | March 9, 2018 | March 19, 2018 |
| June 30, 2018 | $ | 0.4725 | May 16, 2018 | May 25, 2018 |
| September 30, 2018 | $ | 0.4725 | August 20, 2018 | August 29, 2018 |
| December 31, 2018 | $ | 0.4725 | November 16, 2018 | November 26, 2018 |
| | | | | |
| March 31, 2019 | $ | 0.4725 | March 4, 2019 | March 14, 2019 |
| June 30, 2019 | $ | 0.4725 | May 10, 2019 | May 20, 2019 |
| September 30, 2019 | $ | 0.4725 | August 15, 2019 | August 26, 2019 |
| December 31, 2019 | $ | 0.4725 | November 4, 2019 | November 21, 2019 |

## 10. REDEEMABLE PREFERRED STOCK

***SemGroup redeemable preferred stock***

The following table sets forth the preferred stock dividends declared or paid-in-kind for the periods indicated (in thousands):

| Quarter Ended | Dividend Paid-In-Kind | | Date Paid |
|---|---|---|---|
| March 31, 2018* | $ | 4,832 | May 25, 2018 |
| June 30, 2018 | $ | 6,211 | August 29, 2018 |
| September 30, 2018 | $ | 6,317 | November 26, 2018 |
| December 31, 2018 | $ | 6,430 | March 1, 2019 |
| | | | |
| March 31, 2019 | $ | 6,541 | May 20, 2019 |
| June 30, 2019 | $ | 6,657 | August 26, 2019 |
| September 30, 2019 | $ | 6,773 | November 21, 2019 |

*Prorated from January 19, 2018 to March 31, 2018

These dividends paid-in-kind increased the liquidation preference such that as of September 30, 2019, the preferred stock was convertible into 11,726,909 shares.

***Subsidiary redeemable preferred stock***

In conjunction with the formation of our SemCAMS Midstream joint venture, SemCAMS Midstream issued 300,000 shares of cumulative preferred stock with a C$1,000 (US$755 at the September 30, 2019 exchange rate) notional value which pay annual dividends of C$87.50 per share. The preferred stock is redeemable at SemCAMS Midstream’s option subsequent to the third anniversary of issuance at a redemption price of C$1,100 (US$831 at the September 30, 2019 exchange rate) per share. The preferred stock is redeemable by the holder contingent upon a change of control or liquidation of SemCAMS Midstream. The preferred stock is convertible to SemCAMS Midstream common shares in the event of an initial public offering by SemCAMS Midstream.

The preferred stock was issued for proceeds of C$293.7 million (US$223.8 million at the historical rate) which is net of C$6.3 million (US$4.8 million at the historical rate) of costs. As the preferred stock is redeemable after 3 years, we have made a policy election to record the preferred stock at the redemption amount. The accretion to redemption amount is treated as a reduction to SemCAMS common equity held by SemGroup and the noncontrolling interest holders.

Dividends on the preferred stock are payable in-kind for the first ten quarters subsequent to issuance. On April 15, 2019, SemCAMS elected to pay in-kind dividends for the first quarter of 2019 in the amount of C$2.5 million (US$1.9 million at the April 15, 2019 exchange rate), which is prorated for the period from February 25, 2019 to March 31, 2019. On August 13, 2019, SemCAMS elected to pay in-kind dividends for the second quarter of 2019 in the amount of C$6.6 million (US$5.0 million at the August 15, 2019 exchange rate). The dividends paid-in-kind increased the Liquidation Preference such that as of September 30, 2019, the preferred stock was convertible into 309,097 shares.

## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in the components of accumulated other comprehensive loss for the periods shown (in thousands):

## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS, Continued

| | Three Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Currency Translation | Employee Benefit Plans | Total | Attributable to Noncontrolling Interest | Attributable to SemGroup |
| **June 30, 2019** | $ (33,148) | $ (4,945) | $ (38,093) | $ 13,598 | $ (51,691) |
| Currency translation adjustment, net of income tax benefit of $597 | (6,424) | — | (6,424) | (4,519) | (1,905) |
| Changes related to benefit plans, net of income tax expense of $39 | — | 107 | 107 | (86) | 193 |
| **September 30, 2019** | $ (39,572) | $ (4,838) | $ (44,410) | $ 8,993 | $ (53,403) |

| | Three Months Ended September 30, 2018 | | |
|---|---|---|---|
| | Currency Translation | Employee Benefit Plans | Total |
| **June 30, 2018** | $ (26,668) | $ (2,782) | $ (29,450) |
| Currency translation adjustment, net of income tax expense of $1,081 | 3,349 | — | 3,349 |
| Changes related to benefit plans, net of income tax expense of $1 | — | 3 | 3 |
| **September 30, 2018** | $ (23,319) | $ (2,779) | $ (26,098) |

| | Nine Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Currency Translation | Employee Benefit Plans | Total | Attributable to Noncontrolling Interest | Attributable to SemGroup |
| **December 31, 2018** | $ (45,816) | $ (5,431) | $ (51,247) | $ — | $ (51,247) |
| Currency translation adjustment, net of income tax expense of $2,526 | 17,128 | — | 17,128 | 9,062 | 8,066 |
| Reclassification of certain tax effects from adoption of ASU 2018-02 | (10,884) | — | (10,884) | — | (10,884) |
| Changes related to benefit plans, net of income tax expense of $219 | — | 593 | 593 | (69) | 662 |
| **September 30, 2019** | $ (39,572) | $ (4,838) | $ (44,410) | $ 8,993 | $ (53,403) |

| | Nine Months Ended September 30, 2018 | | |
|---|---|---|---|
| | Currency Translation | Employee Benefit Plans | Total |
| **December 31, 2017** | $ (51,014) | $ (2,787) | $ (53,801) |
| Currency translation adjustment, net of income tax benefit of $6,992 | (21,651) | — | (21,651) |
| Currency translation adjustment reclassified to gain on disposal, net of income tax expense of $15,935 | 49,346 | — | 49,346 |
| Changes related to benefit plans, net of income tax expense of $2 | — | 8 | 8 |
| **September 30, 2018** | $ (23,319) | $ (2,779) | $ (26,098) |

## 12. REVENUE FROM CONTRACTS WITH CUSTOMERS

***Disaggregated revenue***

Our revenue is disaggregated by segment and by activity below (in thousands):

## 12. REVENUE FROM CONTRACTS WITH CUSTOMERS, Continued

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| U.S. Liquids | | | | |
| Product sales | $ 380,442 | $ 434,591 | $ 1,257,556 | $ 1,259,709 |
| Pipeline transportation | 21,062 | 21,386 | 63,419 | 63,327 |
| Truck transportation | — | 5,924 | 7,117 | 18,698 |
| Storage fees | 41,143 | 41,915 | 124,000 | 118,848 |
| Facility service fees | 11,152 | 12,534 | 42,292 | 36,266 |
| Lease revenue | 3,873 | 3,937 | 11,789 | 12,517 |
| U.S. Gas | | | | |
| Product sales | 22,319 | 57,807 | 90,712 | 142,291 |
| Service fees | 15,109 | 18,668 | 40,925 | 52,453 |
| Other revenue | — | — | 83 | — |
| Canada | | | | |
| Service fees | 51,661 | 27,609 | 125,276 | 108,553 |
| Other revenue | 18,731 | 14,330 | 52,767 | 48,162 |
| Corporate and Other | | | | |
| Product sales | — | — | — | 31,319 |
| Storage fees | — | (1) | — | 7,753 |
| Service fees | — | 1 | — | 3,071 |
| Intersegment eliminations | (3,082) | (4,705) | (11,354) | (11,568) |
| Total revenue | $ 562,410 | $ 633,996 | $ 1,804,582 | $ 1,891,399 |

***Remaining performance obligations***

Most of our service contracts are such that we have the right to consideration from a customer in an amount that corresponds directly with the value to the customer of our performance completed to date. Therefore, we utilized the practical expedient in ASC 606-10-55-18 under which we recognize revenue in the amount to which we have the right to invoice. Applying this practical expedient, we are not required to disclose the transaction price allocated to remaining performance obligations under these agreements. However, certain of our agreements, such as "take-or-pay" agreements, do not qualify for the practical expedient. At September 30, 2019, the amount and timing of revenue recognition for such contracts is as follows (in thousands):

| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
|---|---|---|---|---|---|---|
| Expected timing of revenue recognized for remaining performance obligations | $ 124,511 | $ 309,486 | $ 240,877 | $ 227,201 | $ 218,134 | $ 1,887,614 |

For our product sales contracts, we have elected the practical expedient set out in ASC 606-10-50-14A that states that we are not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these agreements, each unit of product represents a separate performance obligation and therefore future volumes are wholly unsatisfied and disclosure of transaction price allocated to remaining performance obligations is not required. Under product sales contracts, the variability arises as both volume and pricing (typically index based) are not known until the product is delivered.

## 12. REVENUE FROM CONTRACTS WITH CUSTOMERS, Continued

***Receivables from contracts with customers***

Accounts receivable, net on the condensed consolidated balance sheets represents current receivables from contracts with customers. Certain noncurrent receivables from contracts with customers are included in "other noncurrent assets" on the condensed consolidated balance sheets. These amounts are accruals to recognize revenue for performance to date related to customer deficiencies on minimum volume commitments with make-up rights for which the use of the make-up rights are not probable due to capacity constraints or other factors. Therefore, we have accrued the amount for which no future performance by SemGroup will be required, but for which we do not have a present right to bill the customer until the end of the contract. The balance of noncurrent receivables from customer contracts was (in thousands):

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Noncurrent receivables | $ 14,611 | $ 11,496 |

***Deferred revenue***

We record deferred revenue when we have received a payment in advance of delivering a product or performing a service. For the three months ended September 30, 2019 and 2018, we recognized $0.5 million and $0.4 million, respectively, of revenue which was included in deferred revenue at the beginning of the period. For the nine months ended September 30, 2019 and 2018, we recognized $0.9 million and $3.6 million, respectively, of revenue which was included in deferred revenue at the beginning of the period.

***Costs to obtain or fulfill a contract***

Unless material, we expense costs to obtain or fulfill a contract in the period incurred. At September 30, 2019 and December 31, 2018, we had contract assets of $9.1 million and $9.4 million, respectively, related to costs incurred to obtain contracts which had been expensed as incurred under previous guidance. These costs are reported within "other noncurrent assets" on the condensed consolidated balance sheets and are being amortized straight-line over 25 years, the life of the related contracts. We recognized $0.1 million and $0.1 million of amortization of these assets for the three months ended September 30, 2019 and 2018, respectively. We recognized $0.3 million and $0.3 million of amortization of these assets for the nine months ended September 30, 2019 and 2018, respectively.

## 13. LEASES

SemGroup is a lessee of buildings, land, compressors, vehicles, office equipment and other small equipment under operating leases of varying durations. These leases have fixed and variable payments with variable payments generally being based on usage or the pass through of ownership costs from the lessors. Generally, these leases contain the right to extend the lease for a limited term or on a month to month basis subsequent to expiration of the initial term. Lease renewal periods have been accounted for where we have the right to extend the term and the renewal is reasonably assured at lease inception.

SemGroup is a lessor of certain land, storage tanks and a barge dock located on the Gulf Coast. Based on the terms of the agreement, these assets are accounted for as a direct financing lease. This lease has fixed and variable payments with variable payments generally being based on usage. The agreement has an initial term of 10 years and the customer has the right to renew for two successive five year periods. Subsequent to those periods, either party may cancel the agreement, otherwise it will continue to renew for five year periods. Risks related to unguaranteed residual values are mitigated through insurance and regular maintenance.

We have elected the practical expedients offered by ASC 842 which do not require a reassessment of whether existing or completed contracts at adoption contain a lease, the lease classification or initial direct costs. Additionally, we have elected the practical expedient not to reassess certain land easements at adoption. As such, certain storage tank, pipeline leases and land easements, which are not currently treated as leases, may become leases if these agreements are renewed or modified depending on the terms of the renewal or modification. Additionally, the classification for existing leases may change as agreements are renewed or modified.

***Lessee***

**13. LEASES**, Continued

We have elected the practical expedient to not separate lease and non-lease components for agreements where we lease land, buildings, storage tanks, compressors, and small machinery and equipment. Financing and operating lease liabilities are reported within "Other current liabilities" and "Other noncurrent liabilities" in our condensed consolidated balance sheet.

At September 30, 2019, we have recorded the following right-of-use assets and lease liabilities (in thousands):

| | September 30, 2019 |
|---|---|
| Right of use assets | |
| Financing | $ 2,748 |
| Operating | $ 86,917 |
| Lease liabilities | |
| Financing | $ 2,799 |
| Operating | $ 90,132 |

During the three months and nine months ended September 30, 2019, we have recorded the following (in thousands):

| | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2019 |
|---|---|---|
| Finance lease cost: | | |
| Amortization of right-of-use assets | $ 162 | $ 485 |
| Interest expense on lease liabilities | $ 36 | $ 115 |
| Operating lease costs | $ 2,142 | $ 6,642 |
| Variable lease costs | $ 502 | $ 1,570 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Financing | $ 146 | $ 385 |
| Operating | $ 891 | $ 2,514 |
| Noncash information on lease liabilities arising from obtaining right-of-use assets: | | |
| Financing | $ — | $ 3,232 |
| Weighted average remaining lease term (in years): | | |
| Financing | | 4.25 years |
| Operating | | 41.7 years |
| Weighted average discount rate: | | |
| Financing | | 5.16% |
| Operating | | 5.16% |

Undiscounted cash flows for the remainder of the year and on an annual basis for the following years are as follows (in thousands):

| | Financing | Operating |
|---|---|---|
| 2019 | $ 183 | $ 1,473 |
| 2020 | 732 | 6,125 |
| 2021 | 732 | 6,373 |
| 2022 | 732 | 5,778 |
| 2023 | 732 | 5,532 |
| Thereafter | — | 206,362 |
| Total undiscounted cash flows | $ 3,111 | $ 231,643 |
| Short-term lease liabilities | $ 614 | $ 4,965 |

**13. LEASES**, Continued

| | | | | |
|---|---|---|---|---|
| Long-term lease liabilities | | 2,185 | | 85,167 |
| Total lease liabilities | $ | 2,799 | $ | 90,132 |
| Difference | $ | 312 | $ | 141,511 |

***Lessor***

At September 30, 2019, the components of our net investment in direct financing leases are as follows (in thousands):

| | | September 30, 2019 |
|---|---|---|
| Carrying amount of receivable | $ | 73,027 |
| Unguaranteed residual value | | 69,222 |
| Deferred selling profit on direct financing leases | | (73,027) |
| Net investment in sales-type and direct financing leases | $ | 69,222 |

For the three months and nine months ended September 30, 2019, we have recognized the following amounts of income from our direct financing leases as follows (in thousands):

| | | Three Months Ended September 30, 2019 | | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| Interest income | $ | 3,433 | $ | 10,298 |
| Income related to variable lease payments not included in the lease receivable | | 440 | | 1,491 |
| Total direct financing lease revenue | $ | 3,873 | $ | 11,789 |

Undiscounted cash flows on an annual basis are as follows (in thousands):

| | | Direct financing leases |
|---|---|---|
| 2019 | $ | 3,433 |
| 2020 | | 13,031 |
| 2021 | | 12,800 |
| 2022 | | 12,804 |
| 2023 | | 12,808 |
| Thereafter | | 18,151 |
| Total undiscounted cash flows | $ | 73,027 |

| | |
|---|---|
| Direct Finance lease renewal term | 5 years |

## 14. SEGMENTS

Our businesses are organized based on the nature and location of the services they provide. Certain summarized information related to our reportable segments is shown in the tables below. None of the operating segments have been aggregated. Although Corporate and Other does not represent an operating segment, it is included in the tables below to reconcile segment information to that of the consolidated Company.

In the fourth quarter of 2018, due to recent changes in our asset portfolio, the company elected to reorganize its business structure and reporting relationships to enhance execution and capture operating efficiencies. In conjunction with the reorganization, our reportable segments have changed. Prior period segment disclosures have been recast to reflect the new segments. U.S. Liquids includes the results of our U.S. crude oil operations, including the results of our historical HFOTCO segment. U.S. Gas contains the results of our historical SemGas segment. Canada includes the operations of our historical SemCAMS segment. Our prior SemMexico and SemLogistics segments are included within Corporate and Other, as these businesses were disposed of in 2018. Eliminations of transactions between segments are also included within Corporate and Other in the tables below.

The accounting policies of each segment are the same as the accounting policies of the consolidated Company. Transactions between segments are generally recorded based on prices negotiated between the segments.

Segment Profit is defined as revenue, less cost of products sold (exclusive of depreciation and amortization) and operating expenses, plus equity earnings and is adjusted to remove unrealized gains and losses on commodity derivatives and to reflect equity earnings on an EBITDA basis. Reflecting equity earnings on an EBITDA basis is achieved by adjusting equity earnings to exclude our percentage of interest, taxes, depreciation and amortization from equity earnings for operated equity method investees. For our investment in NGL Energy, we exclude equity earnings and include cash distributions received.

Our results by segment are presented in the tables below (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | |
| U.S. Liquids | | | | |
| External | $ 457,672 | $ 520,287 | $ 1,506,173 | $ 1,509,365 |
| U.S. Gas | | | | |
| External | 34,346 | 71,770 | 120,366 | 183,176 |
| Intersegment | 3,082 | 4,705 | 11,354 | 11,568 |
| Canada | | | | |
| External | 70,392 | 41,939 | 178,043 | 156,715 |
| Corporate and Other | | | | |
| External | — | — | — | 42,143 |
| Intersegment | (3,082) | (4,705) | (11,354) | (11,568) |
| Total Revenues | $ 562,410 | $ 633,996 | $ 1,804,582 | $ 1,891,399 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Earnings from equity method investments: | | | | |
| U.S. Liquids | $ 9,075 | $ 14,546 | $ 35,700 | $ 41,489 |
| Corporate and Other | (10) | (18) | 11 | 4 |
| Total earnings from equity method investments | $ 9,065 | $ 14,528 | $ 35,711 | $ 41,493 |

**14. SEGMENTS**, Continued

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Depreciation and amortization: | | | | |
| U.S. Liquids | $ 36,890 | $ 36,793 | $ 116,201 | $ 105,838 |
| U.S. Gas | 10,958 | 10,836 | 33,165 | 32,107 |
| Canada | 12,905 | 5,250 | 33,024 | 15,752 |
| Corporate and Other | 736 | 719 | 2,146 | 2,192 |
| Total depreciation and amortization | $ 61,489 | $ 53,598 | $ 184,536 | $ 155,889 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Income tax expense (benefit): | | | | |
| U.S. Liquids | $ 149 | $ 209 | $ 445 | $ 599 |
| Canada | 2,532 | 2,836 | (8,260) | 8,942 |
| Corporate and Other | (6,700) | (5,742) | (6,895) | 7,232 |
| Total income tax expense (benefit) | $ (4,019) | $ (2,697) | $ (14,710) | $ 16,773 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Segment profit: | | | | |
| U.S. Liquids | $ 67,508 | $ 75,500 | $ 242,208 | $ 223,949 |
| U.S. Gas | 13,661 | 19,754 | 36,866 | 49,468 |
| Canada | 34,931 | 20,543 | 87,293 | 64,104 |
| Corporate and Other | (1,527) | (913) | (1,983) | 9,878 |
| Total segment profit | $ 114,573 | $ 114,884 | $ 364,384 | $ 347,399 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Reconciliation of segment profit to net income (loss): | | | | |
| Total segment profit | $ 114,573 | $ 114,884 | $ 364,384 | $ 347,399 |
| Less: | | | | |
| Adjustment to reflect equity earnings on an EBITDA basis | 4,633 | 4,926 | 14,061 | 14,695 |
| Net unrealized loss (gain) related to commodity derivative instruments | (10,742) | (4,860) | (1,021) | 1,775 |
| General and administrative expense | 29,662 | 21,904 | 84,729 | 71,267 |
| Depreciation and amortization | 61,489 | 53,598 | 184,536 | 155,889 |
| Loss (gain) on disposal or impairment, net | (373) | (383) | 7,119 | (2,125) |
| Interest expense | 39,663 | 35,318 | 115,225 | 113,683 |
| Foreign currency transaction loss (gain) | 801 | (983) | (476) | 4,625 |
| Other income, net | (1,075) | (400) | (3,401) | (1,883) |
| Income tax expense (benefit) | (4,019) | (2,697) | (14,710) | 16,773 |
| Net income (loss) | $ (5,466) | $ 8,461 | $ (21,678) | $ (27,300) |

## 14. SEGMENTS, Continued

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Total assets (excluding intersegment receivables): | | |
| U.S. Liquids | $ 3,742,432 | $ 3,689,384 |
| U.S. Gas | 665,044 | 716,837 |
| Canada | 1,412,497 | 684,418 |
| Corporate and Other | 292,657 | 119,668 |
| Total assets | $ 6,112,630 | $ 5,210,307 |

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Equity investments: | | |
| U.S. Liquids | $ 264,662 | $ 255,043 |
| Corporate and Other | 18,976 | 18,966 |
| Total equity investments | $ 283,638 | $ 274,009 |

## 15. EARNINGS PER SHARE

Earnings per share is calculated based on income less any income attributable to noncontrolling interests, cumulative preferred stock dividends and accretion of subsidiary preferred stock to redemption value. Basic earnings (loss) per share is calculated based on the weighted average shares outstanding during the period. Diluted earnings (loss) per share includes the dilutive effect of unvested equity compensation awards and the potential conversion of preferred stock, if dilutive.

The following summarizes the calculation of basic earnings per share for the three months and nine months ended September 30, 2019 and 2018 (in thousands, except per share amounts):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Income (loss) | $ (5,466) | $ 8,461 |
| less: income attributable to noncontrolling interest | 7,042 | — |
| Income (loss) attributable to SemGroup | (12,508) | 8,461 |
| less: cumulative preferred stock dividends | 6,773 | 6,317 |
| less: cumulative subsidiary preferred stock dividends | 2,604 | — |
| less: accretion of subsidiary preferred stock to redemption value | 255 | — |
| Net income (loss) attributable to common shareholders | $ (22,140) | $ 2,144 |
| Weighted average common stock outstanding | 78,677 | 78,353 |
| Basic income (loss) per share | $ (0.28) | $ 0.03 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Loss | $ (21,678) | $ (27,300) |
| less: income attributable to noncontrolling interest | 23,256 | — |
| Loss attributable to SemGroup | (44,934) | (27,300) |
| less: cumulative preferred stock dividends | 19,971 | 17,360 |
| less: cumulative subsidiary preferred stock dividends | 6,288 | — |
| less: accretion of subsidiary preferred stock to redemption value | 14,241 | — |
| Net income attributable to common shareholders | $ (85,434) | $ (44,660) |
| Weighted average common stock outstanding | 78,613 | 78,290 |
| Basic loss per share | $ (1.09) | $ (0.57) |

The following summarizes the calculation of diluted earnings per share for the three months and nine months ended September 30, 2019 and 2018 (in thousands, except per share amounts):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Income (loss) | $ (5,466) | $ 8,461 |
| less: income attributable to noncontrolling interest | 7,042 | — |

**15. EARNINGS PER SHARE,** Continued

| | | | | |
|---|---|---|---|---|
| Income (loss) attributable to SemGroup | | (12,508) | | 8,461 |
| less: cumulative preferred stock dividends | | 6,773 | | 6,317 |
| less: cumulative subsidiary preferred stock dividends | | 2,604 | | — |
| less: accretion of subsidiary preferred stock to redemption value | | 255 | | — |
| Net income (loss) attributable to common shareholders | $ | (22,140) | $ | 2,144 |
| Weighted average common stock outstanding | | 78,677 | | 78,353 |
| Effect of dilutive securities | | — | | 624 |
| Diluted weighted average common stock outstanding | | 78,677 | | 78,977 |
| Diluted income (loss) per share | $ | (0.28) | $ | 0.03 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Loss | $ | (21,678) | $ | (27,300) |
| less: income attributable to noncontrolling interest | | 23,256 | | — |
| Loss attributable to SemGroup | | (44,934) | | (27,300) |
| less: cumulative preferred stock dividends | | 19,971 | | 17,360 |
| less: cumulative subsidiary preferred stock dividends | | 6,288 | | — |
| less: accretion of subsidiary preferred stock to redemption value | | 14,241 | | — |
| Net income attributable to common shareholders | $ | (85,434) | $ | (44,660) |
| Weighted average common stock outstanding | | 78,613 | | 78,290 |
| Effect of dilutive securities | | — | | — |
| Diluted weighted average common stock outstanding | | 78,613 | | 78,290 |
| Diluted loss per share | $ | (1.09) | $ | (0.57) |

For the three and nine months ended September 30, 2019 and 2018, the preferred stock would have been antidilutive and, therefore, was not included in the computation of diluted earnings. For the three months ended September 30, 2019 and and the nine months ended September 30, 2019 and 2018, we experienced net losses attributable to SemGroup. The unvested equity compensation awards would have been antidilutive and, therefore, were not included in the computation of diluted earnings per share.

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

The following table summarizes the changes in the components of operating assets and liabilities shown on our condensed consolidated statements of cash flows, net of the effects of acquisitions (in thousands):

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Decrease (increase) in restricted cash | $ | — | $ | 33 |
| Decrease (increase) in accounts receivable | | 21,412 | | (14,835) |
| Decrease (increase) in receivable from affiliates | | 48 | | 793 |
| Decrease (increase) in inventories | | (17,968) | | 57,530 |
| Decrease (increase) in other current assets | | (6,960) | | (4,007) |
| Decrease (increase) in other assets | | 4,298 | | (3,131) |
| Increase (decrease) in accounts payable and accrued liabilities | | (34,502) | | (37,453) |
| Increase (decrease) in payable to affiliates | | (2,845) | | (5,619) |
| Increase (decrease) in other noncurrent liabilities | | 5,374 | | (3,637) |
| | $ | (31,143) | $ | (10,326) |

**16. SUPPLEMENTAL CASH FLOW INFORMATION**, Continued

***Other supplemental disclosures***

We paid cash interest of $112.1 million and $140.2 million for the nine months ended September 30, 2019 and 2018, respectively.

We paid cash income taxes, net of refunds, of $8.3 million and $15.3 million for the nine months ended September 30, 2019 and 2018, respectively.

We incurred liabilities for capital expenditures that had not been paid of $57.9 million and $55.9 million as of September 30, 2019 and 2018, respectively. Such amounts are not included in capital expenditures on the condensed consolidated statements of cash flows.

## 17. RELATED PARTY TRANSACTIONS

Transactions with NGL Energy and its subsidiaries primarily relate to crude oil marketing, leased storage and transportation services, including buy/sell transactions. Transactions with White Cliffs primarily relate to leased storage, purchases and sales of crude oil, transportation fees for shipments on the White Cliffs Pipeline, and management fees.

In accordance with ASC 845-10-15, the buy/sell transactions with NGL Energy and White Cliffs were reported as revenue on a net basis in our condensed consolidated statements of operations and comprehensive income (loss) because the purchases of inventory and subsequent sales of the inventory were with the same counterparty and entered into in contemplation of one another.

During the three months and nine months ended September 30, 2019 and 2018, we generated the following transactions with related parties (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| NGL Energy | | | | |
| Revenues | $ — | $ 6,835 | $ 3,058 | $ 14,013 |
| Purchases | $ 191 | $ 128 | $ 595 | $ 508 |
| | | | | |
| White Cliffs | | | | |
| Storage revenues | $ 1,125 | $ 1,088 | $ 3,413 | $ 3,264 |
| Transportation fees | $ 2,521 | $ 3,135 | $ 8,253 | $ 9,455 |
| Management fees | $ 195 | $ 140 | $ 474 | $ 406 |
| Crude oil purchases | $ — | $ 2,834 | $ — | $ 3,729 |

## 18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS

Our senior unsecured notes are guaranteed by certain of our subsidiaries as follows: Rose Rock Finance Corporation, Rose Rock Midstream Operating, LLC, Rose Rock Midstream Energy GP, LLC, Rose Rock Midstream Crude, L.P., Rose Rock Midstream Field Services, LLC, SemGas, L.P., SemMaterials, L.P., SemGroup Europe Holding, L.L.C., SemOperating G.P., L.L.C., SemMexico, L.L.C., SemDevelopment, L.L.C., Mid-America Midstream Gas Services, L.L.C., SemCrude Pipeline, L.L.C., Beachhead Holdings LCC, Beachhead I LLC, Beachhead II LLC, and Wattenberg Holding, LLC (collectively, the “Guarantors”).

Each of the Guarantors is 100% owned by SemGroup Corporation (the “Parent”). Such guarantees of our senior unsecured notes are full and unconditional and constitute the joint and several obligations of the Guarantors. There are no significant restrictions upon the ability of the Parent or any of the Guarantors to obtain funds from its respective subsidiaries by dividend or loan. None of the assets of the Guarantors represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act.

Unaudited condensed consolidating financial statements for the Parent, the Guarantors and non-guarantors as of September 30, 2019 and December 31, 2018, and for the three months and nine months ended September 30, 2019 and 2018, are presented on an equity method basis in the tables below (in thousands).

Intercompany receivable and payable balances, including notes receivable and payable, are capital transactions primarily to facilitate the capital needs of our subsidiaries. As such, subsidiary intercompany balances have been reported as a reduction to equity on the condensed consolidating Guarantor balance sheets. The Parent’s net intercompany balance, including notes receivable, and investments in subsidiaries have been reported in equity method investments on the condensed consolidating Guarantor balance sheets. Intercompany transactions, such as daily cash management activities, have been reported as financing activities within the condensed consolidating Guarantor statements of cash flows. The Parent's investing activities with subsidiaries have been reflected as cash flows from investing activities. These balances are eliminated through consolidating adjustments below.

**18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**, Continued

*Condensed Consolidating Guarantor Balance Sheets*

| | September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 204,474 | $ — | $ 12,665 | $ (3,132) | $ 214,007 |
| Accounts receivable, net | 2 | 444,803 | 125,201 | — | 570,006 |
| Receivable from affiliates | 129 | 1 | 151 | — | 281 |
| Inventories | — | 66,883 | — | — | 66,883 |
| Other current assets | 7,459 | 11,367 | 7,611 | (34) | 26,403 |
| Total current assets | 212,064 | 523,054 | 145,628 | (3,166) | 877,580 |
| Property, plant and equipment, net | 6,713 | 946,468 | 2,974,464 | — | 3,927,645 |
| Equity method investments | 2,811,088 | 1,508,168 | — | (4,035,618) | 283,638 |
| Goodwill | — | — | 338,856 | — | 338,856 |
| Other intangible assets, net | 1 | 113,433 | 330,795 | — | 444,229 |
| Other noncurrent assets | 44,114 | 4,196 | 102,707 | — | 151,017 |
| Right of use assets, net | 6,133 | 3,316 | 80,216 | — | 89,665 |
| Total assets | $ 3,080,113 | $ 3,098,635 | $ 3,972,666 | $ (4,038,784) | $ 6,112,630 |
| **LIABILITIES, PREFERRED STOCK AND OWNERS' EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 3,274 | $ 444,373 | $ 55,089 | $ — | $ 502,736 |
| Payable to affiliates | — | 870 | — | — | 870 |
| Accrued liabilities | 26,118 | 15,582 | 71,990 | 3 | 113,693 |
| Other current liabilities | 4,961 | 2,717 | 24,352 | — | 32,030 |
| Total current liabilities | 34,353 | 463,542 | 151,431 | 3 | 649,329 |
| Long-term debt | 1,351,079 | 6,098 | 1,126,247 | (6,098) | 2,477,326 |
| Deferred income taxes | 61,601 | — | 71,379 | — | 132,980 |
| Other noncurrent liabilities | 5,936 | 3,883 | 131,813 | — | 141,632 |
| Commitments and contingencies | | | | | |
| Redeemable preferred stock | 379,285 | — | — | — | 379,285 |
| Subsidiary redeemable preferred stock | — | — | 258,376 | — | 258,376 |
| Owners' equity excluding noncontrolling interests in consolidated subsidiaries | 1,247,859 | 2,625,112 | 1,407,577 | (4,032,689) | 1,247,859 |
| Noncontrolling interests in consolidated subsidiaries | — | — | 825,843 | — | 825,843 |
| Total owners' equity | 1,247,859 | 2,625,112 | 2,233,420 | (4,032,689) | 2,073,702 |
| Total liabilities, preferred stock and owners' equity | $ 3,080,113 | $ 3,098,635 | $ 3,972,666 | $ (4,038,784) | $ 6,112,630 |

**18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**, Continued

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 40,064 | $ — | $ 50,742 | $ (4,151) | $ 86,655 |
| Accounts receivable, net | 83 | 461,980 | 100,151 | — | 562,214 |
| Receivable from affiliates | 120 | 18 | 157 | — | 295 |
| Inventories | — | 49,397 | — | — | 49,397 |
| Other current assets | 6,682 | 6,711 | 3,871 | — | 17,264 |
| Total current assets | 46,949 | 518,106 | 154,921 | (4,151) | 715,825 |
| Property, plant and equipment, net | 6,732 | 992,974 | 2,457,620 | — | 3,457,326 |
| Equity method investments | 3,267,581 | 1,553,360 | — | (4,546,932) | 274,009 |
| Goodwill | — | — | 257,302 | — | 257,302 |
| Other intangible assets, net | 5 | 119,583 | 245,450 | — | 365,038 |
| Other noncurrent assets | 41,981 | 4,788 | 94,038 | — | 140,807 |
| Total assets | $ 3,363,248 | $ 3,188,811 | $ 3,209,331 | $ (4,551,083) | $ 5,210,307 |
| **LIABILITIES, PREFERRED STOCK AND OWNERS' EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 38 | $ 444,984 | $ 49,770 | $ — | $ 494,792 |
| Payable to affiliates | 1 | 3,714 | — | — | 3,715 |
| Accrued liabilities | 33,239 | 18,424 | 63,430 | 2 | 115,095 |
| Other current liabilities | 5,723 | 3,409 | 14,423 | — | 23,555 |
| Total current liabilities | 39,001 | 470,531 | 127,623 | 2 | 637,157 |
| Long-term debt | 1,467,083 | 6,315 | 811,751 | (6,315) | 2,278,834 |
| Deferred income taxes | 4,882 | — | 50,907 | — | 55,789 |
| Other noncurrent liabilities | 1,792 | — | 36,756 | — | 38,548 |
| Commitments and contingencies | | | | | |
| Redeemable preferred stock | 359,658 | — | — | — | 359,658 |
| Owners' equity excluding noncontrolling interest in consolidated subsidiary | 1,490,832 | 2,711,965 | 1,832,805 | (4,544,770) | 1,490,832 |
| Noncontrolling interest in consolidated subsidiary | — | — | 349,489 | — | 349,489 |
| Total owners' equity | 1,490,832 | 2,711,965 | 2,182,294 | (4,544,770) | 1,840,321 |
| Total liabilities, preferred stock and owners' equity | $ 3,363,248 | $ 3,188,811 | $ 3,209,331 | $ (4,551,083) | $ 5,210,307 |

**18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**, Continued

*Condensed Consolidating Guarantor Statements of Operations*

| | Three Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| Revenues: | | | | | |
| Product | $ — | $ 399,679 | $ — | $ — | $ 399,679 |
| Service | — | 25,318 | 73,667 | (20) | 98,965 |
| Storage | — | 4,777 | 39,343 | (2,976) | 41,144 |
| Lease | — | — | 3,873 | — | 3,873 |
| Other | — | — | 18,749 | — | 18,749 |
| Total revenues | — | 429,774 | 135,632 | (2,996) | 562,410 |
| Expenses: | | | | | |
| Costs of products sold, exclusive of depreciation and amortization shown below | — | 380,134 | 36 | (2,996) | 377,174 |
| Operating | — | 20,246 | 53,373 | — | 73,619 |
| General and administrative | 15,361 | 3,772 | 10,529 | — | 29,662 |
| Depreciation and amortization | 736 | 18,489 | 42,264 | — | 61,489 |
| Loss (gain) on disposal or impairment, net | (5,697) | 14,774 | (9,450) | — | (373) |
| Total expenses | 10,400 | 437,415 | 96,752 | (2,996) | 541,571 |
| Earnings from equity method investments | 14,936 | 19,010 | — | (24,881) | 9,065 |
| Operating income | 4,536 | 11,369 | 38,880 | (24,881) | 29,904 |
| Other expenses (income), net: | | | | | |
| Interest expense | 23,951 | 290 | 15,422 | — | 39,663 |
| Foreign currency transaction loss | 795 | — | 6 | — | 801 |
| Other income, net | (1,002) | (6) | (67) | — | (1,075) |
| Total other expenses, net | 23,744 | 284 | 15,361 | — | 39,389 |
| Income (loss) before income taxes | (19,208) | 11,085 | 23,519 | (24,881) | (9,485) |
| Income tax expense (benefit) | (6,700) | — | 2,681 | — | (4,019) |
| Net income (loss) | (12,508) | 11,085 | 20,838 | (24,881) | (5,466) |
| Less: net income attributable to noncontrolling interests | — | — | 7,042 | — | 7,042 |
| Net income (loss) attributable to SemGroup | $ (12,508) | $ 11,085 | $ 13,796 | $ (24,881) | $ (12,508) |
| Net income (loss) | $ (12,508) | $ 11,085 | $ 20,838 | $ (24,881) | $ (5,466) |
| Other comprehensive income (loss), net of income taxes | 2,779 | 195 | (9,291) | — | (6,317) |
| Comprehensive income (loss) | (9,729) | 11,280 | 11,547 | (24,881) | (11,783) |
| Less: net income attributable to noncontrolling interests | — | — | 7,042 | — | 7,042 |
| Less: other comprehensive loss attributable to noncontrolling interests | — | — | (4,605) | — | (4,605) |
| Comprehensive income (loss) attributable to SemGroup | $ (9,729) | $ 11,280 | $ 9,110 | $ (24,881) | $ (14,220) |

**18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**, Continued

| | Three Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| Revenues: | | | | | |
| Product | $ — | $ 487,676 | $ 17 | $ — | $ 487,693 |
| Service | — | 34,042 | 52,080 | — | 86,122 |
| Storage | — | 5,652 | 36,262 | — | 41,914 |
| Lease | — | — | 3,937 | — | 3,937 |
| Other | — | — | 14,330 | — | 14,330 |
| Total revenues | — | 527,370 | 106,626 | — | 633,996 |
| Expenses: | | | | | |
| Costs of products sold, exclusive of depreciation and amortization shown below | — | 468,841 | 30 | — | 468,871 |
| Operating | — | 27,806 | 37,029 | — | 64,835 |
| General and administrative | 6,174 | 5,640 | 10,090 | — | 21,904 |
| Depreciation and amortization | 719 | 19,477 | 33,402 | — | 53,598 |
| Loss (gain) on disposal or impairment, net | 1,198 | (1,581) | — | — | (383) |
| Total expenses | 8,091 | 520,183 | 80,551 | — | 608,825 |
| Earnings from equity method investments | 28,555 | 21,966 | — | (35,993) | 14,528 |
| Operating income | 20,464 | 29,153 | 26,075 | (35,993) | 39,699 |
| Other expenses (income), net: | | | | | |
| Interest expense | 19,341 | 10,400 | 5,577 | — | 35,318 |
| Foreign currency transaction gain | (961) | — | (22) | — | (983) |
| Other income, net | (40) | (9) | (351) | — | (400) |
| Total other expenses, net | 18,340 | 10,391 | 5,204 | — | 33,935 |
| Income before income taxes | 2,124 | 18,762 | 20,871 | (35,993) | 5,764 |
| Income tax expense (benefit) | (6,337) | — | 3,640 | — | (2,697) |
| Net income | 8,461 | 18,762 | 17,231 | (35,993) | 8,461 |
| Other comprehensive income (loss), net of income taxes | (6,111) | 87 | 9,376 | — | 3,352 |
| Comprehensive income | $ 2,350 | $ 18,849 | $ 26,607 | $ (35,993) | $ 11,813 |

## 18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS, Continued

| | Nine Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| Revenues: | | | | | |
| Product | $ — | $ 1,335,953 | $ 961 | $ — | $ 1,336,914 |
| Service | — | 79,562 | 199,637 | (225) | 278,974 |
| Storage | — | 14,821 | 118,108 | (8,928) | 124,001 |
| Lease | — | — | 11,789 | — | 11,789 |
| Other | — | 83 | 52,821 | — | 52,904 |
| Total revenues | — | 1,430,419 | 383,316 | (9,153) | 1,804,582 |
| Expenses: | | | | | |
| Costs of products sold, exclusive of depreciation and amortization shown below | — | 1,282,162 | 1,117 | (9,153) | 1,274,126 |
| Operating | — | 68,801 | 146,022 | — | 214,823 |
| General and administrative | 43,710 | 11,036 | 29,983 | — | 84,729 |
| Depreciation and amortization | 2,146 | 56,634 | 125,756 | — | 184,536 |
| Loss (gain) on disposal or impairment, net | (5,697) | 17,892 | (5,076) | — | 7,119 |
| Total expenses | 40,159 | 1,436,525 | 297,802 | (9,153) | 1,765,333 |
| Earnings from equity method investments | 58,423 | 42,441 | — | (65,153) | 35,711 |
| Operating income | 18,264 | 36,335 | 85,514 | (65,153) | 74,960 |
| Other expenses (income), net: | | | | | |
| Interest expense | 73,683 | 926 | 40,764 | (148) | 115,225 |
| Foreign currency transaction gain | (461) | — | (15) | — | (476) |
| Other income, net | (2,656) | (57) | (836) | 148 | (3,401) |
| Total other expenses, net | 70,566 | 869 | 39,913 | — | 111,348 |
| Income (loss) before income taxes | (52,302) | 35,466 | 45,601 | (65,153) | (36,388) |
| Income tax benefit | (7,368) | — | (7,342) | — | (14,710) |
| Net income (loss) | (44,934) | 35,466 | 52,943 | (65,153) | (21,678) |
| Less: net income attributable to noncontrolling interests | — | — | 23,256 | — | 23,256 |
| Net income (loss) attributable to SemGroup | $ (44,934) | $ 35,466 | $ 29,687 | $ (65,153) | $ (44,934) |
| Net income (loss) | $ (44,934) | $ 35,466 | $ 52,943 | $ (65,153) | $ (21,678) |
| Other comprehensive income (loss), net of income taxes | (6,844) | 217 | 13,464 | — | 6,837 |
| Comprehensive income (loss) | (51,778) | 35,683 | 66,407 | (65,153) | (14,841) |
| Less: net income attributable to noncontrolling interests | — | — | 23,256 | — | 23,256 |
| Less: other comprehensive income attributable to noncontrolling interests | — | — | 8,993 | — | 8,993 |
| Comprehensive income (loss) attributable to SemGroup | $ (51,778) | $ 35,683 | $ 34,158 | $ (65,153) | $ (47,090) |

**18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**, Continued

| | Nine Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| Revenues: | | | | | |
| Product | $ — | $ 1,390,415 | $ 31,336 | $ — | $ 1,421,751 |
| Service | — | 100,703 | 181,665 | — | 282,368 |
| Storage | — | 17,601 | 109,000 | — | 126,601 |
| Lease | — | — | 12,517 | — | 12,517 |
| Other | — | — | 48,162 | — | 48,162 |
| Total revenues | — | 1,508,719 | 382,680 | — | 1,891,399 |
| Expenses: | | | | | |
| Costs of products sold, exclusive of depreciation and amortization shown below | — | 1,350,821 | 26,271 | — | 1,377,092 |
| Operating | — | 83,979 | 140,892 | — | 224,871 |
| General and administrative | 19,149 | 17,500 | 34,618 | — | 71,267 |
| Depreciation and amortization | 2,213 | 57,830 | 95,846 | — | 155,889 |
| Loss (gain) on disposal or impairment, net | 133,808 | (152,634) | 16,701 | — | (2,125) |
| Total expenses | 155,170 | 1,357,496 | 314,328 | — | 1,826,994 |
| Earnings from equity method investments | 188,136 | 50,947 | — | (197,590) | 41,493 |
| Operating income | 32,966 | 202,170 | 68,352 | (197,590) | 105,898 |
| Other expenses (income), net: | | | | | |
| Interest expense | 50,582 | 45,931 | 17,410 | (240) | 113,683 |
| Foreign currency transaction loss (gain) | 5,505 | 147 | (1,027) | — | 4,625 |
| Other income, net | (896) | (17) | (1,210) | 240 | (1,883) |
| Total other expenses, net | 55,191 | 46,061 | 15,173 | — | 116,425 |
| Income (loss) before income taxes | (22,225) | 156,109 | 53,179 | (197,590) | (10,527) |
| Income tax expense | 5,075 | — | 11,698 | — | 16,773 |
| Net income (loss) | (27,300) | 156,109 | 41,481 | (197,590) | (27,300) |
| Other comprehensive income (loss), net of income taxes | (16,202) | 242 | 43,663 | — | 27,703 |
| Comprehensive income (loss) | $ (43,502) | $ 156,351 | $ 85,144 | $ (197,590) | $ 403 |

**18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**, Continued

*Condensed Consolidating Guarantor Statements of Cash Flows*

| | Nine Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| Net cash provided by (used in) operating activities | $ (113,034) | $ 94,810 | $ 152,908 | $ 35 | $ 134,719 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | (2,123) | (24,497) | (262,319) | — | (288,939) |
| Proceeds from sale of long-lived assets | 10,955 | 786 | 1,076 | — | 12,817 |
| Contributions to equity method investments | — | (25,456) | — | — | (25,456) |
| Payments to acquire businesses | — | — | (488,297) | — | (488,297) |
| Distributions in excess of equity in earnings of affiliates | — | 15,838 | — | — | 15,838 |
| Net cash provided (used in) investing activities | 8,832 | (33,329) | (749,540) | — | (774,037) |
| Cash flows from financing activities: | | | | | |
| Debt issuance costs | — | — | (13,241) | — | (13,241) |
| Borrowings on credit facilities and issuance of senior notes, net of discount | 95,500 | — | 504,604 | — | 600,104 |
| Principal payments on credit facilities and other obligations | (217,845) | — | (177,120) | — | (394,965) |
| Proceeds from issuance of common stock, net of offering costs | — | — | 448,443 | — | 448,443 |
| Proceeds from issuance of preferred stock, net of offering costs | — | — | 223,280 | — | 223,280 |
| Contributions from noncontrolling interests | — | — | 103,691 | — | 103,691 |
| Distributions to noncontrolling interests | (20,770) | — | (70,060) | — | (90,830) |
| Repurchase of common stock for payment of statutory taxes due on equity-based compensation | (736) | — | — | — | (736) |
| Dividends paid | (112,929) | — | — | — | (112,929) |
| Proceeds from issuance of common stock under employee stock purchase plan | 306 | — | 217 | — | 523 |
| Intercompany borrowings (advances), net | 525,086 | (61,481) | (464,589) | 984 | — |
| Net cash provided by (used in) financing activities | 268,612 | (61,481) | 555,225 | 984 | 763,340 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | 3,330 | — | 3,330 |
| Change in cash and cash equivalents | 164,410 | — | (38,077) | 1,019 | 127,352 |
| Cash and cash equivalents at beginning of period | 40,064 | — | 50,742 | (4,151) | 86,655 |
| Cash and cash equivalents at end of period | $ 204,474 | $ — | $ 12,665 | $ (3,132) | $ 214,007 |

## 18. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS, Continued

| | Nine Months Ended September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-guarantors | Consolidating Adjustments | Consolidated |
| Net cash provided by (used in) operating activities | $ (78,542) | $ 76,038 | $ 138,919 | $ — | $ 136,415 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | (1,139) | (59,609) | (242,643) | — | (303,391) |
| Proceeds from sale of long-lived assets | — | 1,892 | (1,646) | — | 246 |
| Proceeds from business divestiture | 155,447 | 6,753 | (15,465) | — | 146,735 |
| Contributions to equity method investments | — | (7,466) | — | — | (7,466) |
| Distributions in excess of equity in earnings of affiliates | — | 15,730 | — | — | 15,730 |
| Net cash provided by (used in) investing activities | 154,308 | (42,700) | (259,754) | — | (148,146) |
| Cash flows from financing activities: | | | | | |
| Debt issuance costs | (475) | — | (4,245) | — | (4,720) |
| Borrowings on credit facilities and issuance of senior notes, net of discount | 541,000 | — | 598,500 | — | 1,139,500 |
| Principal payments on credit facilities and other obligations | (217,120) | (565,904) | (593,625) | — | (1,376,649) |
| Proceeds from issuance of preferred stock, net of offering costs | 342,299 | — | — | — | 342,299 |
| Repurchase of common stock for payment of statutory taxes due on equity-based compensation | (699) | — | — | — | (699) |
| Dividends paid | (111,445) | — | — | — | (111,445) |
| Proceeds from issuance of common stock under employee stock purchase plan | 228 | — | — | — | 228 |
| Intercompany borrowing (advances), net | (640,614) | 532,580 | 102,108 | 5,926 | — |
| Net cash provided by (used in) financing activities | (86,826) | (33,324) | 102,738 | 5,926 | (11,486) |
| Effect of exchange rate changes on cash and cash equivalents | — | (14) | (480) | — | (494) |
| Change in cash and cash equivalents | (11,060) | — | (18,577) | 5,926 | (23,711) |
| Cash and cash equivalents at beginning of period | 32,457 | — | 69,872 | (8,630) | 93,699 |
| Cash and cash equivalents at end of period | $ 21,397 | $ — | $ 51,295 | $ (2,704) | $ 69,988 |

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC.

### Overview of Business

We provide gathering, transportation, storage, distribution, marketing and other midstream services primarily to producers, refiners of petroleum products and other market participants located in the Gulf Coast, Midwest and Rocky Mountain regions of the United States of America (the “U.S.”) and Canada. We, or our significant equity method investee, have an asset base consisting of pipelines, gathering systems, storage facilities, terminals, processing plants and other distribution assets located in North American production and supply areas, including the Gulf Coast, Midwest, Rocky Mountain and Western Canadian regions. Our U.K. and Mexican operations were disposed of during 2018.

Our operations are conducted directly and indirectly through our primary operating segments: U.S. Liquids, U.S. Gas and Canada.

In the fourth quarter of 2018, due to recent changes in our asset portfolio, we elected to reorganize our business structure and reporting relationships to enhance execution and capture operating efficiencies. In conjunction with the reorganization, our reportable segments have changed. Prior period segment disclosures have been recast to reflect the new segments. U.S. Liquids includes the results of both our U.S. crude oil operations and the results of Houston Fuel Oil Terminal Company (“HFOTCO”) subsequent to its acquisition in 2017. U.S. Gas contains the results of our historical SemGas segment. Canada includes the operations of our historical SemCAMS segment. Our prior Mexican and U.K. operating segments are included within Corporate and Other, as these businesses were disposed of in 2018.

### Recent Developments

***Merger Agreement***

On September 15, 2019, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Energy Transfer LP, a Delaware limited partnership (“ET”) and Nautilus Merger Sub LLC (“Merger Sub”), a Delaware limited liability company and a newly formed, wholly owned subsidiary of ET, whereby SemGroup will be acquired by ET in a unit and cash transaction, including the assumption of debt and other liabilities (the “Merger”).

Under the terms of the Merger Agreement, which has been unanimously approved by the Boards of Directors of both companies, SemGroup stockholders will receive $6.80 per share in cash and 0.7275 of an Energy Transfer common unit for each SemGroup share (the “Merger Consideration”).

Each share of SemGroup Series A Cumulative Perpetual Convertible Preferred Stock outstanding immediately prior to the effective time will, at the election of the holders of a majority of such shares:

- convert into SemGroup stock; or
- be exchanged for a “Substantially Equivalent Security” (as defined in the Certificate of Designations); or
- be redeemed by SemGroup for cash at a price per share equal to 101% of the liquidation preference.

Each holder of SemGroup stock issued upon conversion of shares of SemGroup Preferred Stock will receive the Merger Consideration in exchange for such shares.

The equity consideration received is expected to be treated as a tax-free transaction. The transaction is expected to close in December 2019, subject to SemGroup stockholder approval and other customary closing conditions. The SemGroup stockholder meeting is set for December 4, 2019.

**Results of Operations**

*Consolidated Results of Operations*

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Revenues | $ 562,410 | $ 633,996 | $ 1,804,582 | $ 1,891,399 |
| Expenses: | | | | |
| Costs of products sold, exclusive of depreciation and amortization shown below | 377,174 | 468,871 | 1,274,126 | 1,377,092 |
| Operating | 73,619 | 64,835 | 214,823 | 224,871 |
| General and administrative | 29,662 | 21,904 | 84,729 | 71,267 |
| Depreciation and amortization | 61,489 | 53,598 | 184,536 | 155,889 |
| Loss (gain) on disposal or impairment, net | (373) | (383) | 7,119 | (2,125) |
| Total expenses | 541,571 | 608,825 | 1,765,333 | 1,826,994 |
| Earnings from equity method investments | 9,065 | 14,528 | 35,711 | 41,493 |
| Operating income | 29,904 | 39,699 | 74,960 | 105,898 |
| Other expenses (income), net: | | | | |
| Interest expense | 39,663 | 35,318 | 115,225 | 113,683 |
| Foreign currency transaction loss (gain) | 801 | (983) | (476) | 4,625 |
| Other income, net | (1,075) | (400) | (3,401) | (1,883) |
| Total other expenses, net | 39,389 | 33,935 | 111,348 | 116,425 |
| Income (loss) before income taxes | (9,485) | 5,764 | (36,388) | (10,527) |
| Income tax expense (benefit) | (4,019) | (2,697) | (14,710) | 16,773 |
| Net income (loss) | $ (5,466) | $ 8,461 | $ (21,678) | $ (27,300) |

*Revenues and Expenses*

Revenues, costs of products sold and operating expenses are analyzed by operating segment below.

*General and administrative expense*

General and administrative expense increased in the three months ended September 30, 2019, to $29.7 million from $21.9 million in the three months ended September 30, 2018. The increase is primarily due to merger and acquisition related costs. General and administrative expense increased in the nine months ended September 30, 2019, to $84.7 million from $71.3 million in the nine months ended September 30, 2018. The increase is primarily due to merger and acquisition costs including the formation of SemCAMS Midstream and the acquisition of Meritage Midstream ULC.

*Depreciation and amortization expense*

Depreciation and amortization expense increased in the three months ended September 30, 2019, to $61.5 million from $53.6 million in the three months ended September 30, 2018. The increase is primarily due to additional assets placed in service by our Gulf Coast terminal and Canadian business and increased amortization of intangibles related to our Gulf Coast terminal and the acquisition of Meritage Midstream ULC. Depreciation and amortization expense increased in the nine months ended September 30, 2019, to $184.5 million from $155.9 million in the nine months ended September 30, 2018. The increase is primarily due to additional assets placed in service by our Gulf Coast terminal and Canadian business and increased amortization of intangibles related to our Gulf Coast terminal and the acquisition of Meritage Midstream ULC.

*Loss (gain) on disposal or impairment of long-lived assets, net*

We incurred a net gain on disposal or impairment of long-lived assets for both the three months ended September 30, 2019 and 2018, of $0.4 million. We incurred a net loss on disposal or impairment of long-lived assets for the nine months ended September 30, 2019, of $7.1 million compared to a net gain on disposal or impairment of long-lived assets of $2.1 million for the nine months ended September 30, 2018. Current year net losses on disposals or impairments of long-lived assets are primarily due to a $5.2 million impairment recorded on our Sherman, Texas natural gas gathering and processing assets which were sold in July 2019, and a $3.4 million impairment of our Nash, Oklahoma natural gas processing plant of our U.S. Gas segment. Prior year gains on disposals or impairments of long-lived assets related to the disposal of our U.K. and Mexican operations and a post-closing adjustment to our disposal of Glass Mountain Pipeline.

*Interest expense*

Interest expense increased in the three months ended September 30, 2019, to $39.7 million from $35.3 million in the three months ended September 30, 2018. The increase in interest expense in the three months ended September 30, 2019, is primarily due to Canadian and HFOTCO debt interest, amortization of bond and debt issuance costs and decreased capitalized interest of $5.6 million, $2.2 million and $0.7 million, respectively. These increases were offset by lower LIBOR daily balances resulting in decreases of $4.2 million.

Interest expense increased in the nine months ended September 30, 2019, to $115.2 million from $113.7 million in the nine months ended September 30, 2018. The increase in interest expense was primarily due to Canadian and HFOTCO debt interest, decreased capitalized interest and amortization of bond and debt issuance costs of $14.8 million, $3.7 million and $3.2 million, respectively. These increases were offset, in part, by decreases in accretion of notes payable related to the HFOTCO acquisition, lower LIBOR daily balance fees and lower revolver balance fees of $13.8 million, $5.7 million and $0.8 million, respectively.

*Foreign currency transaction loss (gain)*

We incurred a foreign currency transaction loss in the three months ended September 30, 2019, of $0.8 million compared to a net gain of $1.0 million in the three months ended September 30, 2018. We incurred a foreign currency transaction gain in the nine months ended September 30, 2019, of $0.5 million compared to a net loss of $4.6 million in the nine months ended September 30, 2018. The change is primarily due to realized and unrealized losses of $(0.8) million for the three months ended September 30, 2019, and realized and unrealized gains of $0.5 million for the nine months ended September 30, 2019, on foreign currency forwards for purchases of Canadian dollars to limit exposure to foreign currency rate fluctuations for capital contributions to our Canadian operations compared with realized and unrealized gains for the three months ended September 30, 2018, of $1.0 million and realized and unrealized losses of $5.5 million for the nine months ended September 30, 2018. The nine months ended September 30, 2018, is also impacted by foreign currency changes related to U.S. dollar denominated payables of our Mexican asphalt and U.K. businesses which were sold in early 2018.

*Income tax expense (benefit)*

We reported an income tax benefit of $14.7 million for the nine months ended September 30, 2019, compared to an expense of $16.8 million for the nine months ended September 30, 2018. The effective tax rate was 40% and (159)% for the nine months ended September 30, 2019 and 2018, respectively. The rate for the nine months ended September 30, 2019, is impacted by $1.1 million Canadian withholding tax paid on remittances to the U.S., non-controlling interests in Maurepas Pipeline, LLC and SemCAMS Midstream ULC for which taxes are not provided and a discrete tax benefit of $12.1 million on a statutory rate reduction enacted in Alberta, Canada. The rate for the nine months ended September 30, 2018 is impacted by a discrete tax expense related to the vesting of restricted stock in the amount of $1.7 million, a discrete tax expense of $10.0 million in Mexico on the sale of the 100% equity interest in our Mexican asphalt business and a discrete tax expense of $2.7 million on the foreign tax deduction offset to branch deferreds on the sale of our U.K. operations. Significant items that impacted the effective tax rate for each period, as compared to the U.S. federal statutory rate of 21%, include earnings in foreign jurisdictions taxed at different rates, foreign earnings taxed in foreign jurisdictions as well as in the U.S., since they are disregarded entities for U.S. federal income tax purposes, and the U.S. deduction for foreign taxes. These combined factors, and the magnitude of the permanent items impacting the tax rate relative to income from continuing operations before income taxes, result in rates that are not comparable between the periods.

## Results of Operations by Reporting Segment

### *U.S. Liquids*

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Revenues | | | | |
| Product sales | $ 380,442 | $ 434,591 | $ 1,257,556 | $ 1,259,709 |
| Pipeline transportation | 21,062 | 21,386 | 63,419 | 63,327 |
| Truck transportation | — | 5,924 | 7,117 | 18,698 |
| Storage fees | 41,143 | 41,915 | 124,000 | 118,848 |
| Facility service fees | 11,152 | 12,534 | 42,292 | 36,266 |
| Lease revenue | 3,873 | 3,937 | 11,789 | 12,517 |
| Total revenues | 457,672 | 520,287 | 1,506,173 | 1,509,365 |
| Less: | | | | |
| Costs of products sold | 362,747 | 425,227 | 1,212,075 | 1,242,141 |
| Operating expense | 30,373 | 34,154 | 100,641 | 101,238 |
| Unrealized gain (loss) on commodity derivatives, net | 10,742 | 4,860 | 1,021 | (1,775) |
| Plus: | | | | |
| Earnings from equity method investments | 9,075 | 14,546 | 35,700 | 41,489 |
| Adjustments to reflect equity earnings on an EBITDA basis | 4,623 | 4,908 | 14,072 | 14,699 |
| Segment profit | $ 67,508 | $ 75,500 | $ 242,208 | $ 223,949 |

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Gross product sales | $ 1,538,728 | $ 1,538,106 | $ 4,854,708 | $ 3,990,582 |
| Nonmonetary transaction adjustment | (1,169,028) | (1,108,375) | (3,598,173) | (2,729,098) |
| Unrealized gain (loss) on commodity derivatives, net | 10,742 | 4,860 | 1,021 | (1,775) |
| Product sales | $ 380,442 | $ 434,591 | $ 1,257,556 | $ 1,259,709 |

***Three months ended September 30, 2019 versus three months ended September 30, 2018***

*Revenues*

Product sales decreased in the three months ended September 30, 2019, to $380.4 million from $434.6 million in the three months ended September 30, 2018.

Gross product revenues remained steady in the three months ended September 30, 2019 and 2018 at $1.5 billion. Volumes sold increased to 27 million barrels in the three months ended September 30, 2019 from 22 million barrels in the three months ended September 30, 2018, offset by a decrease in the average sales price to $56 per barrel in the three months ended September 30, 2019, from an average sales price of $70 per barrel in the three months ended September 30, 2018. Volumes increased as compared to prior year due to more location trades.

Gross product revenues were reduced by $1.2 billion and $1.1 billion in the three months ended September 30, 2019 and 2018, respectively, in accordance with Accounting Standards Codification (ASC) 845-10-15, "*Nonmonetary Transactions,"* ("ASC 845-10-15"). ASC 845-10-15 requires that certain transactions -- those where inventory is purchased from a customer then resold to the same customer -- to be presented in the income statement on a net basis, resulting in a reduction of revenue and costs of products sold by the same amount.

Pipeline transportation revenues decreased slightly to $21.1 million in the three months ended September 30, 2019, from $21.4 million in the three months ended September 30, 2018, primarily due to lower transportation volumes.

There were no truck transportation revenues in the three months ended September 30, 2019, compared to $5.9 million in the three months ended September 30, 2018. This was due to the sale of certain South Texas crude oil trucking assets on July 30, 2019, and the refocusing of trucking to primarily support U.S. Liquids' marketing operations.

Storage revenues decreased slightly to $41.1 million in the three months ended September 30, 2019, from $41.9 million in the three months ended September 30, 2018, primarily due to the timing of tank inspections.

Facility service fees decreased to $11.2 million in the three months ended September 30, 2019, from $12.5 million in the three months ended September 30, 2018, primarily due to lower operating cost recoveries at our Gulf Coast terminal.

Lease revenue remained stable at $3.9 million in the three months ended September 30, 2019 and 2018.

*Costs of Products Sold*

Costs of products sold decreased in the three months ended September 30, 2019 to $362.7 million from $425.2 million in the three months ended September 30, 2018. The costs of products sold reflect reductions of $1.2 billion and $1.1 billion in the three months ended September 30, 2019 and 2018, respectively, in accordance with ASC 845-10-15. There was an increase in the barrels sold, as described above, combined with a decrease in the average per barrel cost of crude oil to $57, which includes the impact of a $2.1 million inventory write-down, in the three months ended September 30, 2019, from $70 in the three months ended September 30, 2018.

*Operating Expense*

Operating expense decreased in the three months ended September 30, 2019, to $30.4 million from $34.2 million in the three months ended September 30, 2018, primarily due to lower employment costs and field expenses, partially offset by higher property taxes.

*Unrealized Gain on Commodity Derivatives, net*

Unrealized gain on commodity derivatives, net increased in the three months ended September 30, 2019, to a gain of $10.7 million from a gain of $4.9 million in the three months ended September 30, 2018. The increase in gains is due to open positions and changes in market prices in the respective periods.

*Earnings from Equity Method Investments*

Earnings from equity method investments decreased in the three months ended September 30, 2019, to $9.1 million from $14.5 million in the three months ended September 30, 2018, primarily due to lower volumes on White Cliffs as one crude line was taken out of service in May 2019 for NGL conversion with an estimated fourth quarter 2019 project in-service date.

***Nine months ended September 30, 2019 versus nine months ended September 30, 2018***

*Revenues*

Product sales remained stable at $1.3 billion in the nine months ended September 30, 2019 and 2018.

Gross product revenues increased in the nine months ended September 30, 2019, to $4.9 billion from $4.0 billion in the nine months ended September 30, 2018. The increase was primarily due to an increase in the volume sold to 85 million barrels in the nine months ended September 30, 2019, from 60 million barrels in the nine months ended September 30, 2018, partially offset by a decrease in the average sales price to $57 per barrel, including the impact of $2.8 million in inventory write-downs, in the nine months ended September 30, 2019, from an average sales price of $66 per barrel in the nine months ended September 30, 2018. Volumes increased as compared to prior year due to more location trades.

Gross product revenues were reduced by $3.6 billion and $2.7 billion in the nine months ended September 30, 2019 and 2018, respectively, in accordance with ASC 845-10-15.

Pipeline transportation revenues increased slightly to $63.4 million in the nine months ended September 30, 2019, from $63.3 million in the nine months ended September 30, 2018, primarily due to contractual increases in take or pay volumes.

Truck transportation revenues decreased to $7.1 million in the nine months ended September 30, 2019, from $18.7 million in the nine months ended September 30, 2018, due to the sale of certain South Texas crude oil trucking assets on July 30, 2019, lower transportation volumes and the refocusing of trucking to primarily support U.S. Liquids' marketing operations.

Storage revenues increased to $124.0 million in the nine months ended September 30, 2019, from $118.8 million in the nine months ended September 30, 2018, primarily due to new storage tanks at the Gulf Coast terminal.

Facility service fees increased to $42.3 million in the nine months ended September 30, 2019, from $36.3 million in the nine months ended September 30, 2018, primarily due to higher operating cost recoveries at our Gulf Coast terminal.

Lease revenue decreased to $11.8 million in the nine months ended September 30, 2019, from $12.5 million in the nine months ended September 30, 2018.

*Costs of Products Sold*

Costs of products sold remained stable at $1.2 billion in the nine months ended September 30, 2019 and 2018. The costs of products sold reflect reductions of $3.6 billion and $2.7 billion in the nine months ended September 30, 2019 and 2018, respectively, in accordance with ASC 845-10-15. There was an increase in the barrels sold, as described above, combined with a decrease in the average per barrel cost of crude oil to $57 in the nine months ended September 30, 2019, from $67 in the nine months ended September 30, 2018.

*Operating Expense*

Operating expense decreased in the nine months ended September 30, 2019, to $100.6 million from $101.2 million in the nine months ended September 30, 2018, primarily due to lower employment costs, partially offset by higher property taxes.

*Unrealized Gain (Loss) on Commodity Derivatives, net*

Unrealized gain (loss) on commodity derivatives, net increased in the nine months ended September 30, 2019, to a gain of $1.0 million from a loss of $1.8 million in the nine months ended September 30, 2018. The change in gain (loss) is due to open positions and changes in market prices in the respective periods.

*Earnings from Equity Method Investments*

Earnings from equity method investments decreased in the nine months ended September 30, 2019, to $35.7 million from $41.5 million in the nine months ended September 30, 2018, primarily due to lower volumes on White Cliffs as one crude line was taken out of service in May 2019 for NGL conversion with an estimated fourth quarter 2019 project in-service date.

***U.S. Gas***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Revenues | | | | |
| Product sales | $ 22,319 | $ 57,807 | $ 90,712 | $ 142,291 |
| Service fees | 15,109 | 18,668 | 40,925 | 52,453 |
| Other revenues | — | — | 83 | — |
| Total revenues | 37,428 | 76,475 | 131,720 | 194,744 |
| Less: | | | | |
| Costs of products sold | 17,473 | 48,318 | 72,959 | 120,247 |
| Operating expense | 6,294 | 8,403 | 21,895 | 25,029 |
| Segment profit | $ 13,661 | $ 19,754 | $ 36,866 | $ 49,468 |

***Three months ended September 30, 2019 versus three months ended September 30, 2018***

*Revenues*

Product sales decreased in the three months ended September 30, 2019, to $22.3 million from $57.8 million in the three months ended September 30, 2018. The decrease is primarily due to lower volumes (29,313 MMcf in the three months ended September 30, 2019 compared to 37,006 MMcf for the same period in 2018), a lower average NGL basket price of $0.57/gallon in the three months ended September 30, 2019, versus $0.91/gallon for the same period in 2018, and a lower average natural gas NYMEX price of $2.23/MMbtu in the three months ended September 30, 2019, versus $2.90/MMbtu for the same period in 2018. Volume decreased due to reduced producer drilling, coupled with natural well production declines and the absence of volumes from Texas gathering and transportation assets sold in July 2019.

Service fee revenues decreased in the three months ended September 30, 2019, to $15.1 million from $18.7 million in the three months ended September 30, 2018. The decrease is primarily due to lower volumes.

*Costs of Products Sold*

Costs of products sold decreased in the three months ended September 30, 2019 to $17.5 million from $48.3 million in the three months ended September 30, 2018. The decrease was primarily due to lower NGL prices, lower natural gas prices, and lower volumes.

*Operating Expense*

Operating expense decreased in the three months ended September 30, 2019, to $6.3 million from $8.4 million in the three months ended September 30, 2018. This decrease was primarily due to lower leased compression, lower employee expenses and lower outside services.

***Nine months ended September 30, 2019 versus nine months ended September 30, 2018***

*Revenues*

Product sales decreased in the nine months ended September 30, 2019, to $90.7 million from $142.3 million in the nine months ended September 30, 2018. The decrease is primarily due to lower volumes (86,291 MMcf in the nine months ended September 30, 2019, compared to 99,269 MMcf for the same period in 2018), a lower average NGL basket price of $0.60/gallon in the nine months ended September 30, 2019, versus $0.90/gallon for the same period in 2018, and a lower average natural gas NYMEX price of $2.67/MMbtu in the nine months ended September 30, 2019, versus $2.90/MMbtu for the same period in 2018. Volume decreased due to reduced producer drilling, coupled with natural well production declines and the absence of volumes from Texas gathering and transportation assets sold in July 2019.

Service fee revenues decreased in the nine months ended September 30, 2019, to $40.9 million from $52.5 million in the nine months ended September 30, 2018. The decrease is primarily due to lower volumes.

*Costs of Products Sold*

Costs of products sold decreased in the nine months ended September 30, 2019, to $73.0 million from $120.2 million in the nine months ended September 30, 2018. The decrease was primarily due to lower NGL prices and lower volumes.

*Operating Expense*

Operating expense decreased in the nine months ended September 30, 2019, to $21.9 million from $25.0 million in the nine months ended September 30, 2018. This decrease was primarily due to lower outside services, lower leased compression, and lower employee expenses.

***Canada***

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Revenues | | | | |
| Service fees | $ 51,661 | $ 27,609 | $ 125,276 | $ 108,553 |
| Other revenues | 18,731 | 14,330 | 52,767 | 48,162 |
| Total revenues | 70,392 | 41,939 | 178,043 | 156,715 |
| Less: | | | | |
| Costs of products sold | 36 | 30 | 446 | 239 |
| Operating expense | 35,425 | 21,366 | 90,304 | 92,372 |
| Segment profit | $ 34,931 | $ 20,543 | $ 87,293 | $ 64,104 |

***Three months ended September 30, 2019 versus three months ended September 30, 2018***

*Revenues*

Revenues increased in the three months ended September 30, 2019, to $70.4 million from $41.9 million in the three months ended September 30, 2018. This increase is primarily due to higher gathering and processing revenue and higher operating cost recoveries of $18.6 million and $11.2 million, respectively. These increases were offset, in part, by changes in foreign currency exchange rates between periods of $0.8 million.

*Operating Expense*

Operating expense increased in the three months ended September 30, 2019, to $35.4 million from $21.4 million in the three months ended September 30, 2018. This increase is primarily due to higher contractor costs, higher material costs, and higher labor costs of $12.2 million, $1.9 million, and $1.1 million. These increases were offset, in part, by lower greenhouse gas credit purchases of $1.0 million.

***Nine months ended September 30, 2019 versus nine months ended September 30, 2018***

*Revenues*

Revenues increased in the nine months ended September 30, 2019, to $178.0 million from $156.7 million in the nine months ended September 30, 2018. This increase is primarily due to higher gathering and processing revenue of $35.0 million and the absence of a 2018 planned outage at the KA plant, which decreased prior year gathering and processing revenue by $2.3 million. These increases were offset, in part, by lower operating cost recoveries, changes in foreign currency exchange rates between periods and lower overhead recovery income of $7.8 million, $5.4 million, and $2.6 million, respectively.

*Operating Expense*

Operating expense decreased in the nine months ended September 30, 2019, to $90.3 million from $92.4 million in the nine months ended September 30, 2018. This decrease is primarily due to turnaround costs in 2018 related to the KA plant outage, lower greenhouse gas credit purchases and changes in foreign currency exchange rates between periods of $28.7 million, $3.5 million and $2.7 million, respectively. These decreases were offset, in part, by higher contractor costs, higher material costs, higher power costs, higher other costs, and higher salaries of $22.0 million, $3.9 million, $3.5 million, $2.1 million, and $1.3 million, respectively.

***Corporate and Other***

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Revenues | $ (3,082) | $ (4,705) | $ (11,354) | $ 30,575 |
| Less: | | | | |
| Costs of products sold | (3,082) | (4,704) | (11,354) | 14,465 |
| Operating expense | 1,527 | 912 | 1,983 | 6,232 |
| Plus: | | | | |
| Earnings from equity method investments | (10) | (18) | 11 | 4 |
| Adjustments to reflect NGL Energy equity earnings on a cash basis | 10 | 18 | (11) | (4) |
| Segment profit | $ (1,527) | $ (913) | $ (1,983) | $ 9,878 |

Corporate and Other is not an operating segment. This table is included to permit the reconciliation of segment information to that of the consolidated Company. Earnings from equity method investments in the table above relates to our investments in NGL Energy.

***Three months ended September 30, 2019 versus three months ended September 30, 2018***

Changes in revenues and costs of products sold are due changes in intercompany eliminations related to varying levels of intercompany activity. Operating expenses remained relatively consistent with the prior period.

***Nine months ended September 30, 2019 versus nine months ended September 30, 2018***

The decreases in revenues, costs of products sold and operating expense are due to the disposal of our U.K. operations and Mexican asphalt business in 2018.

## Liquidity and Capital Resources

***Sources and Uses of Cash***

Our principal sources of short-term liquidity are cash generated from our operations and borrowings under our revolving credit facilities. The consolidated cash balance on September 30, 2019, was $214.0 million. Of this amount, $1.4 million was held in Canada and portions may be subject to tax if transferred to the U.S. Potential sources of long-term liquidity include issuances of debt securities and equity securities and the sale of assets. Our primary cash requirements currently are operating expenses, capital expenditures, debt payments and our quarterly dividends. In general, we expect to fund:

- operating expenses, maintenance capital expenditures and cash dividends through existing cash and cash from operating activities;
- expansion capital expenditures and any working capital deficits through cash on hand, borrowings under our revolving credit facilities and the issuance of debt securities and equity securities and proceeds from the divestiture of assets or interests in assets;
- acquisitions through cash on hand, borrowings under our revolving credit facilities, the issuance of debt securities and equity securities and proceeds from the divestiture of assets or interests in assets; and
- debt principal payments through cash from operating activities and refinancing when our revolving and term loan credit facilities become due.

Our ability to meet our financing requirements and fund our planned capital expenditures will depend on our future operating performance and distributions from our equity investments, which will be affected by prevailing economic conditions in our industry. In addition, we are subject to conditions in the debt and equity markets for any issuances of debt securities and equity securities. There can be no assurance we will be able or willing to access the public or private markets in the future. If we would be unable or unwilling to access those markets, we could be required to restrict future cash outlays, such as expansion capital expenditures and potential future acquisitions.

We believe our cash from operations, our remaining borrowing capacity and other capital markets activity allow us to manage our day-to-day cash requirements, distribute our quarterly dividends and meet our capital expenditures commitments for the coming year.

***Cash Flows***

The following table summarizes our changes in cash for the periods presented:

| | Nine Months Ended September 30, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Statement of cash flow data: | | |
| Cash flows provided by (used in): | | |
| Operating activities | $ 134,719 | $ 136,415 |
| Investing activities | (774,037) | (148,146) |
| Financing activities | 763,340 | (11,486) |
| Subtotal | 124,022 | (23,217) |
| Effect of exchange rate on cash and cash equivalents | 3,330 | (494) |
| Change in cash and cash equivalents | 127,352 | (23,711) |
| Cash and cash equivalents at beginning of period | 86,655 | 93,699 |
| Cash and cash equivalents at end of period | $ 214,007 | $ 69,988 |

*Operating Activities*

The components of operating cash flows can be summarized as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Net loss | $ (21,678) | $ (27,300) |
| Non-cash expenses, net | 187,540 | 174,041 |
| Changes in operating assets and liabilities | (31,143) | (10,326) |
| Net cash flows provided by operating activities | $ 134,719 | $ 136,415 |

Adjustments to net loss for non-cash expenses, net increased $13.5 million to $187.5 million for the nine months ended September 30, 2019, from $174.0 million for the nine months ended September 30, 2018. This change is primarily a result of:

- $28.6 million in depreciation and amortization expense, primarily as a result of additional assets placed in service by our Gulf Coast terminal and Canadian business and increased amortization of intangibles related to our HFOTCO acquisition and the acquisition of Meritage Midstream ULC;
- $9.2 million due to current year impairments recorded on certain U.S. Gas assets as compared with a prior year gain on the disposal of our Mexican asphalt business;
- $5.8 million in earnings from equity method investments;
- $2.8 million in inventory valuation adjustments; and
- $1.8 million due to an increase in amortization of debt issuance costs.

These increases to the adjustments to net loss for non-cash expenses, net were offset by decreases due to:

- $23.3 million decrease in deferred income tax expense (benefit) primarily related to Canadian gain currently recognized on intercompany note settlement which was deferred at CCAA emergence and a statutory rate reduction in Alberta, Canada;
- $5.8 million decrease in distributions from equity method investments;
- $5.1 million lower currency exchange losses in the current year primarily due to foreign currency forwards to purchase Canadian dollars to limit exposure to foreign currency rate fluctuations for capital contributions to our Canadian operations.

All other adjustments to net loss for non-cash expenses, net for the nine months ended September 30, 2019, remained relatively comparable to the nine months ended September 30, 2018.

Changes in operating assets and liabilities for the nine months ended September 30, 2019, generated a net decrease in operating cash flows of $31.1 million. The decrease to operating cash flows due to the changes in operating assets and liabilities was primarily a result of a decrease in accounts receivable and other assets of $21.4 million and $4.3 million, respectively, offset by an increase in inventories and other current assets of $18.0 million and $7.0 million, respectively. Liabilities decreased $34.5 million and $2.8 million in accounts payable and accrued liabilities and payables to affiliates, respectively. These decreases were offset by an increase of $5.4 million in other noncurrent liabilities. Changes in receivables, inventory, payables and accrued liabilities are primarily due to our segments' operating activities and are subject to the timing of purchases and sales and fluctuations in commodity pricing.

Changes in operating assets and liabilities for the nine months ended September 30, 2018, generated a net decrease in operating cash flows of $10.3 million. The decrease to operating cash flow due to the changes in operating assets and liabilities was primarily a result of a decrease in inventories of $57.5 million, offset by increases in accounts receivable, other current assets and other assets of $14.8 million, $4.0 million and $3.1 million, respectively. Liabilities decreased $37.5 million in accounts payable, $5.6 million in payables to affiliates and $3.6 million in other non current liabilities. Changes in receivables, inventory, payables and accrued liabilities are primarily due to our segments' operating activities and are subject to the timing of purchases and sales and fluctuations in commodity pricing.

*Investing Activities*

For the nine months ended September 30, 2019, we had net cash outflows of $774.0 million from investing activities, due primarily to $288.9 million in capital expenditures, $488.3 million of payments to acquire businesses, and $25.5 million of contributions to equity method investments. These cash outflows were offset by investing cash inflows of $15.8 million of distributions in excess of equity in earnings of affiliates and $12.8 million of proceeds from the sale of assets. Capital expenditures primarily related to expansion projects at our Canada and U.S. Liquids segments. Acquisitions costs primarily related to the Meritage acquisition by our Canada segment. Distributions in excess of equity in earnings of affiliates represent cash distributions from White Cliffs in excess of our cumulative equity in earnings and are accounted for as a return of investment.

For the nine months ended September 30, 2018, we had net cash outflows of $148.1 million from investing activities, due primarily to $303.4 of capital expenditures and $7.5 million of contributions to equity method investments. These cash outflows were offset by investing cash inflows of $146.7 million in proceeds primarily from the sale of our Mexican asphalt and U.K. storage businesses and $15.7 million of distributions in excess of equity in earnings of affiliates. Capital expenditures primarily related to expansion projects at our Canada and U.S. Liquids segments. Distributions in excess of equity in earnings of affiliates represent cash distributions from White Cliffs in excess of our cumulative equity in earnings and are accounted for as a return of investment.

*Financing Activities*

For the nine months ended September 30, 2019, we had net cash inflows of $763.3 million from financing activities, which related to borrowings on credit facilities of $600.1 million, proceeds from the issuance of subsidiary common stock of $448.4 million, proceeds from the issuance of subsidiary preferred stock, net of offering costs, of $223.3 million and contributions from noncontrolling interests of $103.7 million, offset by principal payments on credit facilities and other obligations of $395.0 million, dividends paid of $112.9 million, $90.8 million of distributions to noncontrolling interests and debt issuance costs of $13.2 million. Issuances of subsidiary common and preferred stock and contributions from noncontrolling interests related to SemCAMS Midstream. Distributions to noncontrolling interests related to distributions to noncontrolling interest holders of SemCAMS Midstream and Maurepas Pipeline.

For the nine months ended September 30, 2018, we had net cash outflows of $11.5 million from financing activities, which related to principal payments on credit facilities and other obligations of $1,376.6 million, dividends paid of $111.4 million, and debt issuance costs of $4.7 million, offset by borrowings on credit facilities of $1,139.5 million and proceeds from the issuance of preferred stock, net of offering costs, of $342.3 million. Principal payments on credit facilities and other obligations include the final payment related to the HFOTCO acquisition of $579.6 million and activity related to the amendment and restatement of HFOTCO's credit agreement.

***Long-term Debt***

*Senior Unsecured Notes*

At September 30, 2019, we had outstanding $400 million of 5.625% senior unsecured notes due 2022, $350 million of 5.625% senior unsecured notes due 2023, $325 million of 6.375% senior unsecured notes due 2025 and $300 million of 7.25% senior unsecured notes due 2026 (collectively, the “Notes”). The Notes are governed by indentures, as supplemented, between the Company and its subsidiary guarantors and Wilmington Trust, N.A., as trustee (the “Indentures”). The Indentures include customary covenants and events of default.

At September 30, 2019, we were in compliance with the terms of the Indentures.

*SemGroup Revolving Credit Facility*

At September 30, 2019, we had no cash borrowings outstanding under our $1.0 billion senior secured revolving credit facility. We had $27.3 million in outstanding letters of credit on that date. The maximum letter of credit capacity under this facility is $250 million. The facility can be increased up to $300 million. The credit agreement expires on March 15, 2021.

At September 30, 2019, we had available borrowing capacity of $972.7 million under this facility.

*HFOTCO long-term debt*

At September 30, 2019, HFOTCO had $592.5 million outstanding under its Term Loan B and $225.0 million outstanding of tax exempt notes payable due 2050. The term loan is due in quarterly installments of $1.5 million with a final payment due on June 26, 2025. In addition, HFOTCO may incur additional term loans in an aggregate amount not to exceed the greater of $120 million and a measure of HFOTCO’s EBITDA, defined in the credit agreement, at the time of determination, plus additional amounts subject to satisfaction of certain leverage-based criteria, subject to receiving commitments for such additional term loans from either new lenders or increased commitments from existing lenders.

*SemCAMS Midstream Credit Agreement*

At September 30, 2019, SemCAMS Midstream has a Credit Agreement (the “Credit Agreement”), together with The Toronto-Dominion Bank, as administrative agent, providing for a C$350 million senior secured term loan facility, a C$525 million senior secured revolving credit facility and a C$300 million senior secured construction loan facility (the “KAPS Facility”). The term loan facility and the revolving credit facility mature on February 25, 2024. The KAPS Facility matures on June 13, 2024. SemCAMS Midstream may incur additional term loans and revolving commitments in an aggregate amount not to exceed C$250 million, subject to receiving commitments for such additional term loans or revolving commitments from either new lenders or increased commitments from existing lenders.

As of September 30, 2019, there was USD equivalent $264.3 million outstanding on the term loan and USD equivalent $67.2 million outstanding on the revolver. We had USD equivalent $22.7 million in outstanding letters of credit on that date.

***Shelf Registration Statement***

In July 2019, we filed a universal shelf registration statement which provides us the ability to offer and sell an unlimited amount of debt and equity securities, subject to market conditions and our capital needs. This shelf registration statement expires in July 2022.

***Capital Requirements***

The midstream energy business can be capital intensive, requiring significant investment for the maintenance of existing assets or acquisition or development of new systems and facilities. We categorize our capital expenditures as either:

- expansion capital expenditures, which are cash expenditures incurred for acquisitions or capital improvements that we expect will increase our operating income or operating capacity over the long-term; or
- maintenance capital expenditures, which are cash expenditures (including expenditures for the addition or improvement to, or the replacement of, our capital assets or for the acquisition of existing, or the construction or development of new, capital assets) made to maintain our long-term operating income or operating capacity.

Projected capital expenditures for 2019 are estimated at $262 million in expansion projects, including capital contributions to affiliates for funding growth projects and acquisitions, and $45 million in maintenance projects. Projected capital expenditures excludes $113 million to be funded by SemCAMS Midstream noncontrolling interest holders. These estimates may change as future events unfold. See “Cautionary Note Regarding Forward-Looking Statements.” During the nine months ended September 30, 2019, we spent $288.9 million (cash basis, including amounts funded by noncontrolling interest holders) on capital projects and $25.5 million in capital contributions to equity method investees.

In addition to our budgeted capital program, we anticipate that we will continue to make significant expansion capital expenditures in the future. Consequently, our ability to develop and maintain sources of funds to meet our capital requirements is critical to our ability to meet our growth objectives. We expect that our future expansion capital expenditures will be funded by cash from operations, borrowings under our revolving credit facilities, the issuance of debt and equity securities and proceeds from the divestiture of assets or interests in assets.

***Common Stock Dividends***

The table below shows common dividends declared and/or paid by SemGroup on its common stock during 2018 and 2019.

| Quarter Ended | Record Date | Payment Date | Dividend Per Share |
|---|---|---|---|
| March 31, 2018 | March 9, 2018 | March 19, 2018 | $0.4725 |
| June 30, 2018 | May 16, 2018 | May 25, 2018 | $0.4725 |
| September 30, 2018 | August 20, 2018 | August 29, 2018 | $0.4725 |
| December 31, 2018 | November 16, 2018 | November 26, 2018 | $0.4725 |
| | | | |
| March 31, 2019 | March 4, 2019 | March 14, 2019 | $0.4725 |
| June 30, 2019 | May 10, 2019 | May 20, 2019 | $0.4725 |
| September 30, 2019 | August 15, 2019 | August 26, 2019 | $0.4725 |
| December 31, 2019 | November 4, 2019 | November 21, 2019 | $0.4725 |

***Preferred Stock Dividends***

On January 19, 2018, we sold to certain institutional investors, in a private placement, an aggregate of 350,000 shares of our Series A Cumulative Perpetual Convertible Preferred Stock, par value $0.01 per share (the "Preferred Stock), convertible into shares of our Class A common stock. Holders of the Preferred Stock will receive quarterly distributions equal to an annual rate of 7.0% ($70.00 per share annualized) of $1,000 per share of Preferred Stock, subject to certain adjustments. With respect to any quarter ending on or prior to June 30, 2020, we may elect, in lieu of paying a distribution in cash, to have the amount that would have been payable if such dividend had been paid in cash added to the Liquidation Preference. Paid-in-kind dividends increase the Liquidation Preference.

The table below shows dividends declared and/or paid by SemGroup on its preferred stock during 2018 and 2019.

| Quarter Ended | Declaration Date | Payment Date | Total Cash Dividends Paid | Total Paid-in-Kind Dividends |
|---|---|---|---|---|
| *March 31, 2018 | May 1, 2018 | May 25, 2018 | - | $4.8 million |
| June 30, 2018 | August 7, 2018 | August 29, 2018 | - | $6.2 million |
| September 30, 2018 | October 31, 2018 | November 26, 2018 | - | $6.3 million |
| December 31, 2018 | February 20, 2019 | March 14, 2019 | - | $6.4 million |
| | | | | |
| March 31, 2019 | April 30, 2019 | May 20, 2019 | - | $6.5 million |
| June 30, 2019 | August 5, 2019 | August 26, 2019 | - | $6.7 million |
| September 30, 2019 | November 4, 2019 | November 21, 2019 | - | $6.8 million |

*Prorated from January 19, 2018 to March 31, 2018

***Subsidiary Redeemable Preferred Stock Dividends***

In conjunction with the formation of our SemCAMS Midstream joint venture, SemCAMS Midstream issued 300,000 shares of cumulative preferred stock with a C$1,000 (US$755 at September 30, 2019 exchange rate) notional value which pay annual dividends of C$87.50 per share. The preferred stock is redeemable at SemCAMS Midstream's option subsequent to the third anniversary of issuance at a redemption price of C$1,100 (US$831 at September 30, 2019 exchange rate) per share. The preferred stock is redeemable by the holder contingent upon a change of control or liquidation of SemCAMS Midstream. The preferred stock is convertible to SemCAMS Midstream common shares in the event of an initial public offering by SemCAMS Midstream.

On April 15, 2019, SemCAMS elected to pay in-kind dividends for the first quarter of 2019 in the amount of C$2.5 million (US$1.9 million at the April 15, 2019 exchange rate), which is prorated for the period from February 25, 2019 to March 31, 2019. On August 13, 2019, SemCAMS elected to pay in-kind dividends for the second quarter of 2019 in the amount of C$6.6 million (US$5.0 million at the August 15, 2019 exchange rate). The dividends paid-in-kind increased the Liquidation Preference such that as of September 30, 2019, the preferred stock was convertible into 309,097 shares.

***Credit Risk***

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. We examine the creditworthiness of third-party customers to whom we extend credit and manage our exposure to credit risk through credit analysis, credit approval, credit limits and monitoring procedures, and for certain transactions, we may request letters of credit, prepayments or guarantees.

***Customer Concentration***

Koch Supply & Trading LLC and Phillips 66, customers primarily of our U.S. Liquids segment, accounted for more than 10% of our consolidated revenue for the three months ended September 30, 2019, at approximately 25%. Shell Trading (US) Company and Phillips 66, customers primarily of our U.S. Liquids segment, accounted for more than 10% of our consolidated revenue for the nine months ended September 30, 2019, at approximately 27%. The contracts from which our revenues are derived from these customers relate to our crude marketing operations and are for crude oil purchases and sales at market prices. We are not substantially dependent on such contracts and believe that if we were to lose any or all of these contracts, they could be readily replaced under substantially similar terms.

Although we have contracts with customers of varying durations, if one or more of our major customers were to default on their contract, or if we were unable to renew our contract with one or more of these customers on favorable terms, we might not be able to replace any of these customers in a timely fashion, on favorable terms or at all. In any of these situations, our revenues and our ability to pay cash dividends to our stockholders may be adversely affected. We expect our exposure to risk of non-payment or non-performance to continue as long as we remain substantially dependent on a relatively small number of customers for a substantial portion of our revenues.

***Off-Balance Sheet Arrangements***

We have no off-balance sheet arrangements as defined by Item 303 of Regulation S-K.

***Commitments***

For information regarding purchase and sales commitments, see the discussion under the caption “Purchase and sale commitments” in Note 8 of our condensed consolidated financial statements of this Form 10-Q, which information is incorporated by reference into this Item 2.

**Critical Accounting Policies and Estimates**

For disclosure regarding our critical accounting policies and estimates, see the discussion under the caption “Critical Accounting Policies and Estimates” in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018.

**Recent Accounting Pronouncements**

See Note 1 to our condensed consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

This discussion on market risks represents an estimate of possible changes in future earnings that would occur assuming hypothetical future movements in commodity prices, interest rates and currency exchange rates. Our views on market risk are not necessarily indicative of actual results that may occur, and do not represent the maximum possible gains and losses that may occur since actual gains and losses will differ from those estimated based on actual fluctuations in commodity prices, interest rates, currency exchange rates and the timing of transactions.

We are exposed to various market risks, including changes in (i) petroleum prices, particularly crude oil, natural gas and natural gas liquids, (ii) interest rates and (iii) currency exchange rates. We may use from time-to-time various derivative instruments to manage such exposure. Our risk management policies and procedures are designed to monitor physical and financial commodity positions and the resulting outright commodity price risk as well as basis risk resulting from differences in commodity grades, purchase and sale locations and purchase and sale timing. We have a risk management function that has responsibility and authority for our Risk Governance Policies, which govern our enterprise-wide risks, including the market risks discussed in this item. Subject to our Risk Governance Policies, our finance and treasury function has responsibility and authority for managing exposure to interest rates and currency exchange rates. To manage the risks discussed above, we engage in price risk management activities.

**Commodity Price Risk**

The table below outlines the range of NYMEX prompt month daily settle prices for crude oil and natural gas futures, and the range of daily propane spot prices provided by an independent, third-party broker for the three months and nine months ended September 30, 2019 and September 30, 2018, and the year ended December 31, 2018.

| | Light Sweet Crude Oil Futures (Barrel) | Mont Belvieu (Non-LDH) Spot Propane (Gallon) | Henry Hub Natural Gas Futures (MMBtu) |
|---|---|---|---|
| **Three Months Ended September 30, 2018** | | | |
| High | $74.14 | $1.08 | $3.08 |
| Low | $65.01 | $0.87 | $2.72 |
| *High/Low Differential* | *$9.13* | *$0.21* | *$0.36* |
| | | | |
| **Three Months Ended September 30, 2019** | | | |
| High | $62.90 | $0.50 | $2.68 |
| Low | $51.09 | $0.39 | $2.07 |
| *High/Low Differential* | *$11.81* | *$0.11* | *$0.61* |
| | | | |
| **Nine Months Ended September 30, 2018** | | | |
| High | $75.30 | $1.10 | $3.31 |
| Low | $59.19 | $0.73 | $2.55 |
| *High/Low Differential* | *$16.11* | *$0.37* | *$0.76* |
| | | | |
| **Nine Months Ended September 30, 2019** | | | |
| High | $66.30 | $0.71 | $3.59 |
| Low | $46.54 | $0.39 | $2.07 |
| *High/Low Differential* | *$19.76* | *$0.32* | *$1.52* |
| | | | |
| **Year Ended December 31, 2018** | | | |
| High | $76.41 | $1.10 | $4.84 |
| Low | $42.53 | $0.61 | $2.55 |
| *High/Low Differential* | *$33.88* | *$0.49* | *$2.29* |

Revenue from our asset-based activities is dependent on throughput volume, tariff rates, the level of fees generated from our pipeline systems, capacity leased to third parties, capacity that we use for our own operational or marketing activities and the level of other fees generated at our terminalling and storage facilities. Profit from our marketing activities is dependent on our ability to sell petroleum products at prices in excess of our aggregate cost. Margins may be affected during transitional periods between a backwardated market (when the prices for future deliveries are lower than the current prices) and a contango market (when the prices for future deliveries are higher than the current prices). Our petroleum product marketing activities within each of our segments are generally not directly affected by the absolute level of petroleum product prices, but are affected by overall levels of supply and demand for petroleum products and relative fluctuations in market-related indices at various locations.

However, the U.S. Gas segment has exposure to commodity price risk because of the nature of certain contracts for which our fee is based on a percentage of proceeds or index related to the prices of natural gas, natural gas liquids and condensate. Given current volumes, liquid recoveries and contract terms, we estimate the following sensitivities over the next twelve months:

- A 10% increase in the price of natural gas and natural gas liquids results in approximately a $2.9 million increase to gross margin.
- A 10% decrease in those prices would have the opposite effect.

The above sensitivities may be impacted by changes in contract mix, change in production or other factors which are outside of our control.

Additionally, based on our open derivative contracts at September 30, 2019, an increase in the applicable market price or prices for each derivative contract would result in a decrease in our crude oil sales revenues. Likewise, a decrease in the applicable market price or prices for each derivative contract would result in an increase in our crude oil sales revenues. However, the increases or decreases in crude oil sales revenues we recognize from our open derivative contracts are substantially offset by higher or lower crude oil sales revenues when the physical sale of the product occurs. These contracts may be for the purchase or sale of crude oil or in markets different from the physical markets in which we are attempting to hedge our exposure, or may have timing differences relative to the physical markets. As a result of these factors, our hedges may not eliminate all price risks.

The notional volumes and fair value of our commodity derivatives open positions as well as the change in fair value that would be expected from a 10% market price increase or decrease is shown in the table below (in thousands):

| | Notional Volume (Barrels) | Fair Value | Effect of 10% Price Increase | Effect of 10% Price Decrease | Settlement Date |
|---|---|---|---|---|---|
| Crude oil: | | | | | |
| Futures contracts | 1,157 (short) | $ 4,706 | $ (6,256) | $ 6,256 | October 2019 |

Margin deposits or other credit support, including letters of credit, are generally required on derivative instruments used to manage our price exposure. As commodity prices increase or decrease, the fair value of our derivative instruments changes, thereby increasing or decreasing our margin deposit or other credit support requirements. Although a component of our risk-management strategy is intended to manage the margin and other credit support requirements on our derivative instruments, volatile spot and forward commodity prices, or an expectation of increased commodity price volatility, could increase the cash needed to manage our commodity price exposure and thereby increase our liquidity requirements. This may limit amounts available to us through borrowing, decrease the volume of petroleum products we purchase and sell or limit our commodity price management activities.

### Interest Rate Risk

We use variable rate debt and are exposed to market risk due to the floating interest rates on our credit facilities. Therefore, from time-to-time we may use interest rate derivatives to manage interest obligations on specific debt issuances. Our variable rate debt bears interest at LIBOR or prime, subject to certain floors, plus the applicable margin. At September 30, 2019, an increase in these base rates of 1%, above the base rate floors, would increase our interest expense by $3.0 million for the three months ended September 30, 2019. Increases in interest expense due to an increase in interest rates as presented above, would have been partially offset by a reduction of $0.9 million in interest expense from interest rate swaps, discussed below, for the three months ended September 30, 2019. At September 30, 2019, an increase in these base rates of 1%, above the base rate floors, would increase our interest expense by $9.0 million for the nine months ended September 30, 2019. Increases in interest expense due to an increase in interest rates as presented above, would have been partially offset by a reduction of $3.1 million in interest expense from interest rate swaps, discussed below, for the nine months ended September 30, 2019.

The average interest rates presented below are based upon rates in effect at September 30, 2019 and December 31, 2018. The carrying value of the variable rate instruments in our credit facilities approximate fair value primarily because our rates fluctuate with prevailing market rates.

The following table summarizes our debt obligations:

| Liabilities | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Long-term debt - variable rate | $1.13 billion | $935.5 million |
| Average variable interest rate | 4.39% | 4.93% |
| Short-term debt - variable rate | $15.9 million | $6.0 million |
| Average variable interest rate | 4.60% | 5.28% |
| Long-term debt - fixed rate | $1.375 billion | $1.375 billion |
| Average fixed interest rate | 6.16% | 6.16% |

We have interest rate swaps which allow us to limit exposure to interest rate fluctuations. The swaps only apply to a portion of our outstanding debt and provide only partial mitigation of interest rate fluctuations. We have not designated the swaps as hedges, as such, changes in the fair value of the swaps are recorded through current period earnings as a component of interest expense. At September 30, 2019 and December 31, 2018, we had interest rate swaps with notional values of $521.3 million and $524.3 million, respectively. At September 30, 2019, the fair value of our interest rate swaps was $3.6 million which was reported within “other current liabilities” and “other noncurrent liabilities” in our condensed consolidated balance sheet. At December 31, 2018, the fair value of our interest rate swaps was $1.5 million which was reported within “other current liabilities” and “other noncurrent liabilities” in our condensed consolidated balance sheet. For the three months ended September 30, 2019 and 2018, we recognized realized and unrealized gains of $31 thousand and $0.3 million related to interest rate swaps, respectively. For the nine months ended September 30, 2019 and 2018, we recognized realized and unrealized losses of $2.2 million and realized and unrealized gains of $1.5 million related to interest rate swaps, respectively.

### Currency Exchange Risk

The cash flows related to our Canadian operations are based on the U.S. dollar equivalent of such amounts measured in Canadian dollars. Assets and liabilities of our Canadian subsidiaries are translated to U.S. dollars using the applicable exchange rate as of the end of a reporting period. Revenue, expenses and cash flows are translated using the average exchange rate during the reporting period.

A 10% change in the average exchange rate during the three months and nine months ended September 30, 2019, would change operating income by $2.8 million and $7.0 million, respectively.

From time to time, we enter into foreign currency forwards primarily to purchase Canadian dollars to limit exposure to foreign currency rate fluctuations for capital contributions to our Canada segment primarily to fund capital projects. We have not designated the forwards as hedges; therefore, changes in the fair value of the forwards are recorded through current period earnings as a component of foreign currency transaction gains and losses. At September 30, 2019, we did not have any foreign currency forwards. At December 31, 2018, we had foreign currency forwards with notional values of $56.1 million. At December 31, 2018, the fair value of our foreign currency forwards was $3.0 million, respectively, which is reported within "other current liabilities" in our condensed consolidated balance sheet. For the three months ended September 30, 2019 and 2018, we recognized realized losses of $0.8 million and unrealized gains of $1.0 million related to foreign currency forwards, respectively. For the nine months ended September 30, 2019 and 2018, we recognized realized gains of $0.5 million and realized and unrealized losses of $5.5 million related to foreign currency forwards, respectively.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act), are effective as of September 30, 2019. This conclusion is based on an evaluation conducted under the supervision and participation of our Chief Executive Officer and Chief Financial Officer along with our management. Disclosure controls and procedures are those controls and procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

On February 25, 2019, we closed on the acquisition of Meritage Midstream ULC. We are in the process of assessing and, to the extent necessary, making changes to the internal control over financial reporting at Meritage Midstream ULC to conform such internal control to that used in our other businesses. Based on the information presently available to management, we do not believe such changes will adversely impact our internal control over financial reporting. Subject to the foregoing, there were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2019, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

For information regarding legal proceedings, see the discussion under the captions “QPSE,” “Environmental” and “Other matters,” in Note 8 of our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, which information is incorporated by reference into this Item 1.

## Item 1A. Risk Factors

Except as set forth below, there have been no material changes to the risk factors involving us from those previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. In addition to such risks, you should read and consider the risks associated with Energy Transfer LP (“ET”) found in ET’s Annual Report on Form 10-K for the year ended December 31, 2018, as updated by subsequent quarterly reports on Form 10-Q, all of which are filed with the SEC.

### Risks Factors Related to the Merger

***Because the market price of a common unit representing a limited partnership interest in Energy Transfer (“ET Common Unit”) will fluctuate prior to the consummation of the merger, SemGroup stockholders cannot be sure of the market value of ET Common Units that they will receive in the merger.***

At the time the merger is completed, SemGroup stockholders will receive, for each share of our Class A Common Stock (the “SemGroup Common Stock”) they own as of immediately prior to the merger, a combination of $6.80 in cash and 0.7275 of an ET Common Unit (collectively, the “Merger Consideration”). At the time that SemGroup stockholders cast their votes regarding approval of the Merger Agreement and the Merger, SemGroup stockholders will not know the actual market value of the ET Common Units that they will receive when the Merger is finally completed. The actual market value of the ET Common Units, when received by SemGroup common stockholders, will depend on the market value of those units on that date. This market value may be less than the value of the ET common units on the date of the Merger Agreement and on the date that SemGroup stockholders vote on the Merger Agreement. These fluctuations in the market value of ET common units may be caused by changes in the businesses, operations, results and prospects of both Energy Transfer and SemGroup, market expectations of the likelihood that the merger will be completed and the timing of the completion, general market and economic conditions or other factors.

***The Merger is subject to various closing conditions, and any delay in completing the merger may reduce or eliminate the benefits expected and delay the payment of the Merger Consideration to SemGroup’s common stockholders.***

The Merger is subject to the satisfaction of a number of other conditions beyond the parties’ control that may prevent, delay or otherwise materially adversely affect the completion of the merger. These conditions include, among other things, SemGroup stockholder approval. ET and SemGroup cannot predict with certainty whether and when any of these conditions will be satisfied. Any delay in completing the merger could cause the combined company not to realize, or delay the realization, of some or all of the benefits that the companies expect to achieve from the Merger. In such context, the date on which SemGroup’s common stockholders will receive the Merger Consideration is also uncertain.

***Certain executive officers and directors of SemGroup have interests in the Merger that are different from, or in addition to, the interests of SemGroup stockholders generally, which could have influenced their decision to support or approve the Merger.***

Certain executive officers and directors of SemGroup are parties to agreements or participants in other arrangements that give them interests in the Merger that may be different from, or be in addition to, your interests as a stockholder of SemGroup. You should consider these interests in voting on the Merger.

***The Merger Agreement limits SemGroup’s ability to pursue alternatives to the Merger.***

The Merger Agreement contains provisions that make it more difficult for SemGroup to sell its business to a party other than ET. These provisions include the general prohibition on SemGroup soliciting any acquisition proposal (as defined in the Merger Agreement) or offer for a competing transaction from a third party, and the requirement that SemGroup pay ET a breakup fee of $54.5 million or up to $27.25 million of ET’s expenses if the Merger Agreement is terminated in specified circumstances, including in the event SemGroup terminates the Merger Agreement in response to an acquisition proposal from a third party that the SemGroup board of directors determines constitutes a superior offer. In addition, even if the SemGroup board of directors receives a superior offer, it must, prior to accepting any offer from a competing bidder, provide ET with the opportunity to amend the Merger Agreement such that the third-party offer no longer constitutes a superior offer. The foregoing may discourage a third party that might have an interest in acquiring all or a significant part of SemGroup from considering or proposing an acquisition, even if that party were prepared to pay consideration with a higher per share value than the current proposed merger consideration.

Furthermore, the breakup fee and the ET expense reimbursement provisions may result in a potential competing acquiror proposing to pay a lower per share price to acquire SemGroup than it might otherwise have proposed to pay.

***If the Merger Agreement is terminated, under certain circumstances, SemGroup may be obligated to reimburse ET for costs incurred related to the Merger or pay a breakup fee to ET. These costs could require SemGroup to seek loans or use SemGroup's available cash that would have otherwise been available for operations, dividends or other general corporate purposes.***

In certain circumstances, SemGroup would be responsible for reimbursing ET for up to $27.25 million in expenses related to the transaction or may be obligated to pay a breakup fee to ET of $54.5 million. If the Merger Agreement is terminated, the breakup fee required to be paid, if any, by SemGroup under the Merger Agreement may require SemGroup to seek loans or borrow amounts to enable it to pay these amounts to ET. In either case, payment of these amounts would reduce the cash SemGroup has available for operations, dividends or other general corporate purposes.

***The pendency of the Merger could materially adversely affect the future business and operations of SemGroup or result in a loss of SemGroup employees.***

In connection with the pending Merger, it is possible that some customers, suppliers and other persons with whom SemGroup has a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationship with SemGroup as a result of the Merger, which could negatively impact revenues, earnings and cash flows of SemGroup, as well as the market price of shares of SemGroup Common Stock, regardless of whether the Merger is completed. Similarly, current and prospective employees of SemGroup may experience uncertainty about their future roles with ET and SemGroup following completion of the Merger, which may materially adversely affect the ability of SemGroup to attract and retain key employees.

***Failure to complete the Merger could negatively affect the stock price of SemGroup and its future businesses and financial results.***

If the Merger is not completed, the ongoing business of SemGroup may be adversely affected and SemGroup will be subject to several risks and consequences, including the following:

- under the Merger Agreement, SemGroup may be required, under certain circumstances, to pay ET a breakup fee of $54.5 million or ET's expenses up to $27.25 million;
- SemGroup will be required to pay certain costs relating to the Merger, whether or not the Merger is completed, such as legal, accounting, financial advisor and printing fees;
- under the Merger Agreement, SemGroup is subject to certain restrictions on the conduct of its business prior to completing the Merger without ET's consent, which may adversely affect its ability to execute certain of its business strategies; and
- matters relating to the Merger may require substantial commitments of time and resources by SemGroup management, which could otherwise have been devoted to other opportunities that may have been beneficial to SemGroup as an independent company.

In addition, if the Merger is not completed, SemGroup may experience negative reactions from the financial markets and from its customers and employees. SemGroup also could be subject to litigation related to any failure to complete the Merger or to enforcement proceedings commenced against SemGroup to attempt to force it to perform its obligations under the Merger Agreement.

***Pending litigation against ET and SemGroup could result in an injunction preventing completion of the Merger, the payment of damages in the event the Merger is completed and/or may adversely affect the combined company's business, financial condition or results of operations following the Merger.***

In connection with the Merger, purported stockholders of SemGroup have filed a stockholder class action lawsuit against ET, SemGroup, Merger Sub and the SemGroup board of directors in the United States District Court for the District of

Delaware. Among other remedies, the plaintiffs seek to enjoin the Merger. If a final settlement is not reached, or if a dismissal is not obtained, these lawsuits could prevent or delay completion of the Merger and result in substantial costs to ET and SemGroup, including any costs associated with the indemnification of directors. Additional lawsuits may be filed against ET and/or SemGroup related to the Merger. Any litigation relating to the Merger could distract ET or SemGroup from pursuing the consummation of the Merger and other potentially beneficial business opportunities. Further, the defense or settlement of any lawsuit or claim that remains unresolved at the time the Merger is completed may adversely affect the combined company's business, financial condition or results of operations.

***Other Risks***

Following the Merger, in addition to the risks described above, holders of ET common units, for U.S. federal income tax purposes, will continue to be subject to the risks that holders of ET common units are currently subject to, which are described in ET's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as updated by any subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, all of which are filed with the SEC.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of our common stock by us during the quarter ended September 30, 2019:

| | Total Number of Shares Purchased (1) | Weighted Average Price Paid per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1, 2019 - July 31, 2019 | 754 | $ 11.77 | — | — |
| August 1, 2019 - August 31, 2019 | 1,080 | 9.97 | — | — |
| September 1, 2019 - September 30, 2019 | — | — | — | — |
| Total | 1,834 | $ 10.71 | — | — |

(1) Represents shares of common stock withheld from certain of our employees for payment of taxes associated with the vesting of restricted stock awards.

(2) The price paid per common share represents the closing price as posted on the New York Stock Exchange on the day that the shares were purchased.

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not applicable

## Item 5. Other Information

None

## Item 6. Exhibits

The following exhibits are filed or furnished as part of this Quarterly Report on Form 10-Q:

| Exhibit Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of September 15, 2019 by and among SemGroup Corporation, Energy Transfer LP and Nautilus Merger Sub LLC (filed as Exhibit 2.1 to our current report on Form 8-K dated September 15, 2019, filed September 16, 2019, and incorporated herein by reference).* |

| | |
|---|---|
| 3.1 | Certificate of Designations of Series A Cumulative Perpetual Convertible Preferred Stock of SemGroup Corporation, filed with the Secretary of State of the State of Delaware on January 19, 2018 (including form of stock certificate for our Series A Cumulative Perpetual Convertible Preferred Stock attached as Exhibit A thereto) (filed as Exhibit 3.1 to our current report on Form 8-K dated January 16, 2018, filed January 19, 2018, and incorporated herein by reference). |
| 3.2 | Amendment No. 1 to Certificate of Designations of Series A Cumulative Perpetual Convertible Preferred Stock of SemGroup Corporation, filed with the Secretary of State of the State of Delaware on September 16, 2019 (filed as Exhibit 3.1 to our current report on Form 8-K dated September 15, 2019, filed September 16, 2019, and incorporated herein by reference). |
| 4.1 | First Supplemental Indenture to Amended and Restated Bond Indenture, dated as of July 26, 2019, between Harris County Industrial Development Corporation, and The Bank of New York Mellon Trust Company, National Association, as trustee, relating to $75 million Series 2010 Marine Terminal Revenue Bonds (filed as Exhibit 4.1 to our quarterly report on Form 10-Q dated August 9, 2019, filed August 9, 2019, and incorporated herein by reference). |
| 4.2 | First Supplemental Indenture to Amended and Restated Bond Indenture, dated as of July 26, 2019, between Harris County Industrial Development Corporation, and The Bank of New York Mellon Trust Company, National Association, as Trustee, relating to $50 million Series 2011 Marine Terminal Revenue Bonds (filed as Exhibit 4.2 to our quarterly report on Form 10-Q dated August 9, 2019, filed August 9, 2019, and incorporated herein by reference). |
| 4.3 | First Supplemental Indenture to Amended and Restated Bond Indenture, dated as of July 26, 2019, between Harris County Industrial Development Corporation, and The Bank of New York Mellon Trust Company, National Association, as Trustee, relating to $100 million Series 2012 Marine Terminal Revenue Bonds (filed as Exhibit 4.3 to our quarterly report on Form 10-Q dated August 9, 2019, filed August 9, 2019, and incorporated herein by reference). |
| 4.4 | Amendment No. 3 to Continuing Covenant Agreement, dated as of July 26, 2019, between HFOTCO LLC, as obligor, Buffalo Gulf Coast Terminals, LLC, as the parent, Bank of America, N.A., as administrative agent and collateral agent, and the bondholders party thereto (filed as Exhibit 4.4 to our quarterly report on Form 10-Q dated August 9, 2019, filed August 9, 2019, and incorporated herein by reference). |
| 10.1 | Support Agreement, dated September 15, 2019, by and among Energy Transfer LP, Nautilus Merger Sub LLC, WP SemGroup Holdco, LLC and SemGroup Corporation (filed as Exhibit 10.1 to our current report on Form 8-K dated September 15, 2019, filed September 16, 2019, and incorporated herein by reference). |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Carlin G. Conner, Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Robert N. Fitzgerald, Chief Financial Officer. |
| 32.1 | Section 1350 Certification of Carlin G. Conner, Chief Executive Officer. |
| 32.2 | Section 1350 Certification of Robert N. Fitzgerald, Chief Financial Officer. |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |

* Schedules to the Agreement and Plan of Merger have been omitted pursuant to Item 601 of Regulation S-K. A copy of any omitted schedule will be furnished to the SEC upon request.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| Date: November 7, 2019 | SEMGROUP CORPORATION | |
| | By: | /s/ Robert N. Fitzgerald |
| | | Robert N. Fitzgerald |
| | | Executive Vice President and |
| | | Chief Financial Officer |

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlin G. Conner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SemGroup Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Carlin G. Conner

Carlin G. Conner
President and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO SECTION 302**
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert N. Fitzgerald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SemGroup Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2019

/s/ Robert N. Fitzgerald

Robert N. Fitzgerald
Executive Vice President and Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of SemGroup Corporation (the “Company”) on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carlin G. Conner, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Carlin G. Conner

Carlin G. Conner
President and Chief Executive Officer

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of SemGroup Corporation (the “Company”) on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert N. Fitzgerald, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Robert N. Fitzgerald

Robert N. Fitzgerald
Executive Vice President and
Chief Financial Officer