



**MOVING**

**AHEAD**



Annual Report 2014



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## Annual General Meeting Information

Wednesday, May 6, 2015 at 10:00 a.m.  
(Mountain Standard Time)

The Metropolitan Conference Centre  
333 - 4 Ave SW, Calgary, Alberta



Gibson Energy is a large midstream energy company in North America with operations in some of the most hydrocarbon-rich basins in the world.

For over 60 years, Gibsons has provided market access to the leading oil and gas companies in Western Canada. By diversifying our service offerings and expanding geographically, we continue to meet our customers' needs in key hydrocarbon producing regions throughout North America. Our unparalleled service level is what sets us apart from our competitors and we strive to provide hands-on service between the producer and end-user.

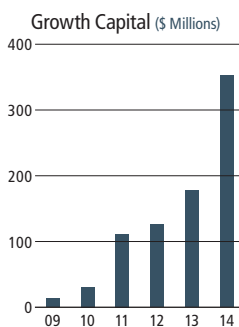
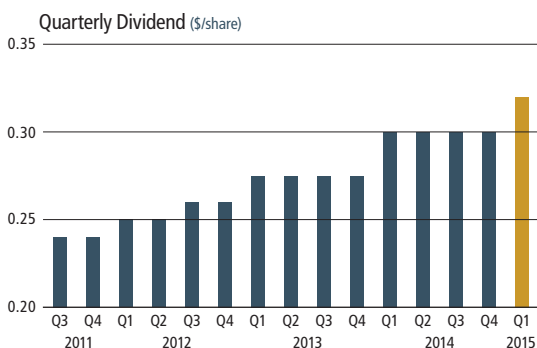
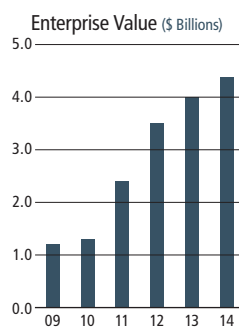
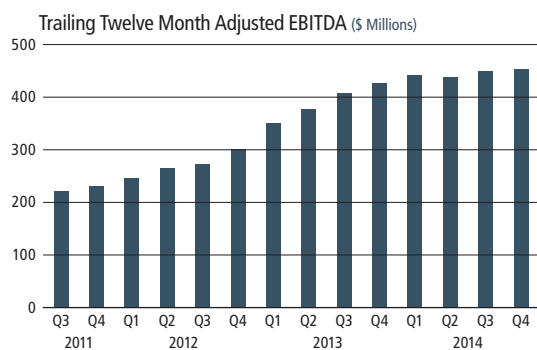
Our integrated operations allow us to participate in the full midstream energy value chain. We transport millions of barrels of energy products each year by pipeline, trucks and rail through our strategically located terminals in Hardisty and Edmonton, Alberta, Canada, and through our injection stations and small terminals in the United States.

Gibsons' diversified service offering includes terminals, storage, blending, processing, marketing and distribution of crude oil, condensate, natural gas liquids, and refined products. We also provide emulsion treating, water disposal and oilfield waste management services in Canada and the U.S.

# 2014 RESULTS AND HIGHLIGHTS

Gibsons has a strong corporate culture that sees value in strategic planning and prides itself on the effective delivery of its goals and objectives over time. In 2014, we continued to execute on our plans.

- Demonstrated strong safety and operational performance;
- Achieved record annual adjusted EBITDA of \$453 million, a 6% increase over 2013;
- Expended \$352 million of growth capital in 2014, a 99% increase over the prior year;
- Successfully commissioned our pipeline connection from Gibsons' Hardisty Terminal to the USD Group's crude oil unit train rail loading facility at Hardisty, Alberta;
- Completed two new tanks on the east side of the Hardisty Terminal resulting in an 800,000 barrel increase in capacity;
- Constructed and commissioned a processing, recovery and disposal (PRD) facility in North Dakota, along with a co-located licensed landfill. Both of these facilities are expected to provide stable production-related revenue sources for the Environmental Services segment;
- Completed the acquisition of Cal-Gas Inc. for \$96 million and Stittco Energy Limited for \$32 million. Combined, these transactions contributed to making Gibsons the largest industrial propane company in western Canada;
- Completed an offering of Senior Unsecured Notes totaling \$300 million aggregate principal amount of 5.375% Senior Unsecured Notes, due July 15, 2022 issued at par, and U.S.\$50 million aggregate principal amount of 6.75% Senior Unsecured Notes, due July 15, 2021 at an issue price of 108% of par;
- Amended the terms of our \$500 million secured revolving credit facility to, among other things, release all security required by the lenders, and to extend the maturity date from June 2018 to August 2019;
- Declared total dividends of \$149 million (\$1.20/share) in 2014 compared to \$134 million (\$1.10/share), in 2013;
- Increased distributable cash flow to \$265 million resulting in a gross dividend payout ratio of 56% and a net dividend payout ratio of 42%, after considering our DRIP participation level; and
- Increased our quarterly dividend by 7% to \$0.32 cents per common share in conjunction with the release of our year-end 2014 results, the fifth increase since our public offering in June 2011.



**\$453** MM

**Record Adjusted EBITDA in 2014**

**\$352** MM

**Spent on Growth Capital in 2014**

**5.9** MMbbls

**Storage Capacity at Year End 2014**

# PRESIDENT & CEO'S MESSAGE

*"May you live in interesting times..."*

It's a phrase I've used often when speaking about the economic, geopolitical and social challenges that affected our industry in 2014. It's also a phrase that describes the kind of year that Gibson Energy had - a year of record performance and growth, contrasted with a year marked by significant volatility in oil prices.

## Delivering Results

In 2014, we delivered record annual results with Segment Profit of \$487 million and Pro Forma Adjusted EBITDA of \$458 million. We also successfully executed the most ambitious capital spending plan in the company's history, spending \$352 million on growth capital projects, many of which will contribute meaningfully to our profitability in 2015 and beyond.

But our successes in 2014 did not materialize overnight. They were made possible because of the focused execution of our strategic plan: to provide mid-stream solutions that capitalize on growth trends in North American oil and liquids production.

During the year we welcomed two new companies to the Gibsons family, both of which I would characterize as "bucket list" acquisitions, as we have followed their successes over the last twenty plus years.

- Cal-Gas Inc. has been in business for over 40 years, providing propane equipment, service and delivery to the oil and gas, commercial, mining and residential sectors. This acquisition dovetails nicely with our existing Canwest Propane operations and extends our geographic footprint into Manitoba and Northwest Ontario.
- Further expanding the Manitoba footprint and adding Northwest Territories as well, Stittco Energy Limited provides propane equipment, service and delivery to the same business sectors as Cal-Gas.

We expect the turmoil created by lower commodity prices in 2015 to provide some compelling opportunities to continue our tradition of making strategic acquisitions as a means of growing our core businesses.

**"Our successes in 2014 did not materialize overnight. They were made possible because of the focused execution of our strategic plan."**

**Stewart Hanlon**  
President & CEO

In 2014, we also acted on numerous opportunities to improve and grow our operations.

- The multi-year expansion of our eastern lands at Hardisty continued throughout the year, culminating in the commissioning of the first two new tanks that added 800,000 barrels of incremental capacity in the fourth quarter. An additional 400,000 barrel tank came into service in February of 2015. This brought our total capacity at the Hardisty terminal to 5.5 million barrels, with 1.6 million barrels currently under construction.
- We added two new pipeline connections to our Hardisty terminal, which advanced the ever-increasing flexibility of the terminal. We completed our pipeline receipt connection from the recently twinned Cold Lake pipeline. We also commissioned the exclusive, delivery pipeline to USD Group's Hardisty unit train loading facility. Both of these projects are underpinned by long-term contracts with key credit-worthy customers.
- We constructed and commissioned a full-service, processing, recovery and disposal facility and landfill in the North Dakota Bakken – Gibsons' first in the U.S. It will recover and recycle oilfield waste streams, efficiently meeting waste treatment and disposal requirements, while minimizing the industry's environmental footprint in the region.

The safety of our workforce, contractors and nearby communities remains top-of-mind. In 2014, we introduced several programs to continue on our journey of continuous improvement. I'm pleased to say we saw real and significant improvements in key safety metrics. While we continue to see improvements in our performance, we can never become complacent. In 2015, we will continue to strengthen our programs, improve our processes and support our workforce.

Underlying all of our activities is our operating and financial discipline that helps us pursue the activities, projects and ventures that create shareholder value and make us a stronger company. Gibsons' balance sheet remains solid.

At year end:

- We had \$132 million of cash and \$442 million available under our \$500 million revolving credit facility, which carries an August 2019 renewal date;
- Our debt to debt plus capital ratio was 41%;
- Our leverage ratio was 2.2 times; and our interest coverage ratio was 6.7 times.

Our debt levels are low and we are in great financial health to succeed through another industry cycle. And it is a cycle. That's the nature of our business. Our executive team and Board have been through commodity price cycles like this before and we will persevere through this one. In 2015, we will continue to work hard to meet our targets, realize our cost management goals, capitalize on opportunities and advance our growth strategy.

**"Our debt levels are low and we are in great financial health to succeed through another industry cycle. And it is a cycle."**

## Recognizing our Strengths

We know successful companies thrive over time, largely because they have attracted, retained and motivated the best talent in their industry. For over 60 years, Gibsons has been defined by people who seized opportunities and made exceptional customer service a part of everything they do. I want to thank our employees for their hard work and dedication. I would also like to thank our Board of Directors. Their guidance and governance have been invaluable over the past year.

At Gibsons, we recognize that good corporate citizenship is good business. In fact, it is essential to achieve long-term business sustainability. In 2014, we continued to invest both time and money into the communities where we live and work.

During our annual United Way campaign, Gibsons and its employees pledged more than \$350,000 to support various United Way agencies and organizations across North America. During the Calgary campaign kick-off, employees participated in our first-ever truck pull. The public event, which saw teams of employees pull a 1953 refurbished Gibsons truck, drew valuable attention to the United Way cause while at the same time, building team spirit among employees.

During 2014, Gibsons also contributed to programs across North America through its community investment program. The program, founded on the four pillars of Health, Safety and Wellness; Education and the Arts; Community Enhancement; and the Environment, allows Gibsons to support many organizations across North America, including multi-year partnerships with Ducks Unlimited and the Calgary Police Foundation.

## Moving Ahead

The challenges going forward are numerous and complex, but the opportunities are also many.

Oil and liquids production in North America is still projected to increase. Crude oil and liquids still need to be hauled from the wellhead to injection stations and terminals. Pipelines and tank infrastructure still need to be built to support production growth. Production waste and water will still need to be treated, managed safely and disposed of. To be direct, we are well-positioned for the future. While the current challenges of the market may continue for longer than we would like, we are committed to focusing on the things we believe we can influence and control:

- Providing our customers with exceptional customer-service;
- Investing in our people and strengthening our culture;
- Delivering long-term value to our shareholders; and
- Making valuable contributions to the communities where we live and work

At Gibsons, we are committed to being a company that people want to do business with, want to work for, and want to invest in. We do, indeed, live in interesting times and I look forward to sharing them with you as we strengthen and grow our company, seize opportunities and move ahead.



Stewart Hanlon,  
*President & CEO*



## Management's Discussion and Analysis

*The following Management's Discussion and Analysis ("MD&A") was prepared and approved by the Company's Board of Directors as of March 3, 2015 and should be read in conjunction with the audited consolidated financial statements and related notes of Gibson Energy Inc. ("Gibson" or the "Company") for the years ended December 31, 2014 and 2013, which were prepared under International Financial Reporting Standards ("IFRS") as set out in the Handbook of the Canadian Institute of Chartered Accountants and as issued by the International Accounting Standards Board (IASB). Amounts are stated in Canadian dollars unless otherwise noted.*

*This MD&A contains forward-looking statements and non-GAAP measures and readers are cautioned that this MD&A should be read in conjunction with the Company's disclosure under "Forward-Looking Statements" and "Non-GAAP Financial Measures" included at the end of this MD&A. Non-GAAP measures contained in this MD&A include EBITDA, Adjusted EBITDA, Pro-forma Adjusted EBITDA, and Distributable Cash flow.*

### EXECUTIVE OVERVIEW

Gibson is a large independent integrated service provider to the oil and gas industry with operations across major producing regions throughout North America. Gibson is engaged in the movement, storage, blending, processing, marketing and distribution of crude oil, condensate, natural gas liquids ("NGLs"), water, oilfield waste, and refined products. The Company transports energy products by utilizing its integrated network of terminals, pipelines, storage tanks, and trucks located throughout western Canada and through its significant truck transportation and injection station network in the United States. The Company also provides emulsion treating, water disposal and oilfield waste management services in Canada and the United States and is the second largest industrial propane distribution company in Canada. The Company's integrated operations allow it to participate across the full midstream energy value chain, from the hydrocarbon producing regions in Canada and the United States, through the Company's strategically located terminals in Hardisty and Edmonton, Alberta and injection stations and small terminals in the United States, to the refineries of North America via major pipelines.

Gibson has provided market access to leading oil and gas industry participants in western Canada for over 60 years. The Company has grown by diversifying its service offerings to meet customers' needs and by expanding geographically to provide its service offerings to key hydrocarbon producing regions throughout the United States.

The Company's integrated segments can be broken down as follows: (1) Terminals and Pipelines, (2) Environmental Services, (3) Truck Transportation, (4) Propane and NGL Marketing and Distribution, (5) Processing and Wellsite Fluids and (6) Marketing. The Company believes its competitive advantage is driven by its geographic presence in the majority of hydrocarbon-rich basins in North America, its footholds in strategic market hubs, its ability to capture value throughout the midstream energy value chain, its diversified, integrated, synergistic service offerings, its ability to source and successfully execute internal growth projects, its proven track record of sourcing, executing and successfully integrating business acquisitions, its leading health, safety, security and environment record, its experienced management team with a proven history of successful operations and strong industry reputation and its conservative risk management policies. The Company is continuously focused on improving its operations across all segments by utilizing the Company's integrated asset base to capture inter segment synergies and to expand the Company's network of assets, and to increase the Company's margins by providing additional value added services along the midstream energy value chain.



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## Highlights

The key highlights for the year ended December 31, 2014 were as follows:

- Revenue increased by 24% in the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase was primarily due to increased overall activity in the Company's segments;
- Overall segment profit increased by 7% to \$487.1 million in the year ended December 31, 2014 compared to \$456.4 million in the year ended December 31, 2013. The increase in segment profit was primarily driven by increases in the Terminals and Pipelines, Environmental Services, Processing and Wellsite Fluids, and Propane and NGL Marketing and Distribution segments;
- Adjusted EBITDA in the year ended December 31, 2014 increased by 6% to \$453.1 million compared to \$427.0 million in the year ended December 31, 2013. The increase in adjusted EBITDA was primarily due to the increase in segment profits. Pro Forma Adjusted EBITDA for the year ended December 31, 2014 was \$458.2 million;
- Net income was \$91.9 million in the year ended December 31, 2014 compared to \$103.8 million in the year ended December 31, 2013. The decrease was largely due to an increase in the non-cash foreign exchange loss incurred on translating the Company's U.S. dollar denominated long-term debt, higher depreciation and amortization and interest charges, partially offset by an increase in overall segment profitability and decreased debt extinguishment charges;
- The Company declared a dividend of \$0.30 per common share in each of the four quarters of 2014 for total dividends of \$148.6 million for the year ended December 31, 2014. For the year ended December 31, 2014, distributable cash flow was \$265.2 million resulting in a dividend payout ratio of 56%;
- Capital expenditures were \$411.5 million for the year ended December 31, 2014, of which \$352.5 million related to growth capital. Growth capital expenditures are primarily related to the construction of tankage and pipeline connections at the Company's facilities, in particular at the Hardisty Terminal, and the expansion of the Environmental Services business. At December 31, 2014, the Company had capital expenditures totaling \$200.4 million included in work in progress;
- In June 2014, the crude oil unit train rail loading facility at Hardisty, Alberta, was successfully commissioned. The facility, which the Company jointly developed with US Development Group LLC, is underpinned by long-term customer commitments. With pipeline connectivity from the Company's Hardisty Terminal, the facility provides customers with increased optionality to facilitate crude oil movements across North America;
- In October 2014, Gibson revised the design configuration of its storage tank construction project currently underway at the Hardisty Terminal resulting in a 200,000 barrel increase in the original planned capacity and the construction of an incremental 300,000 barrel tank to accommodate current and forecasted operational requirements at the terminal;
- In October 2014, the Company successfully commissioned two new tanks at the east side of the Hardisty Terminal resulting in a 800,000 barrel increase in capacity;
- In December 2014, the Company successfully commissioned a processing, recovery, and disposal (PRD) facility in North Dakota. The facility is well located, offers modern processing technologies and establishes Gibson as a full-service waste provider in the US Bakken tight oil play. This facility is co-located with the licensed landfill which was commissioned earlier in 2014, both of which will contribute to our efforts to shift the profile of our environmental services business toward more stable production-related revenue sources;
- On August 1, 2014, the Company completed the acquisition of Cal-Gas Inc. ("Cal-Gas") for cash consideration of \$96.4 million subject to final purchase price adjustments. Cal-Gas is one of the largest propane distribution companies in western Canada, with operations in British Columbia, Alberta, Saskatchewan, Manitoba and Northwest Ontario. Cal-Gas has been in business for over 40 years, providing propane equipment, service and delivery to the oil and gas, commercial, mining and residential sectors;
- On April 1, 2014, the Company completed the acquisition of all of the issued and outstanding common shares of Stittco Energy Limited ("Stittco") for cash consideration of \$32.1 million. Stittco is a private company which provides propane equipment, service and delivery to residential and commercial and mining customers in Northern Manitoba and the Northwest Territories;
- On June 12, 2014, the Company completed an offering of Senior Unsecured Notes totaling \$300.0 million aggregate principal amount of 5.375% Senior Unsecured Notes due July 15, 2022 issued at par and U.S.\$50.0 million aggregate





principal amount of 6.75% Senior Unsecured Notes due July 15, 2021 at an issue price of 108% of par. The net proceeds were used to repay all outstanding indebtedness under the existing revolving credit facility (excluding letters of credit), with the remaining net proceeds used to fund capital expenditures and general corporate purposes; and

- On August 20, 2014, the Company amended the terms of its \$500.0 million secured revolving credit facility to, among other things, release all security required by the lenders, and to extend the maturity date from June 2018 to August 2019 (the "Revolving Credit Facility").

On January 31, 2015, the Company acquired all of the issued and outstanding shares of Littlehawk Enterprises Ltd. ("Littlehawk") for approximately \$8.2 million, subject to the final purchase price adjustments. Littlehawk is a private Canadian company which operates hydrovac units that specialize in hydro excavation, pressure testing and water hauling for the construction and energy industries.

In February 2015, the Company successfully commissioned a new tank on the east side of the Hardisty Terminal resulting in a 400,000 barrel increase in capacity. In addition, the Company successfully commissioned its connectivity enhancement project related to the twinning of the Cold Lake pipeline connection to the Hardisty Terminal.

On March 3, 2015, the Board declared a quarterly dividend on its outstanding common shares of \$0.32 cents per common share for the quarter ended March 31, 2015. The dividend is payable on April 17, 2015 to shareholders of record at the close of business on March 31, 2015.

#### **Trends affecting the Company's business**

In accordance with the Company's long-range strategic plan, the Company continuously evaluates organic growth opportunities and potential acquisitions of transportation, industrial propane distribution, gathering, terminalling or storage and other complementary midstream businesses, such as emulsion treating, water disposal and oilfield waste management services. Some of the key industry trends that currently affect Gibson's business and prospects over the short-term (2 years or less) and the medium to long-term (in two to five years) are:

- Increased oil production in North America has increased demand for many facets of the midstream energy value chain including storage, transportation, distribution, processing, refining and environmental and production services, all of which are activities the Company participates in. However, the recent decline in crude oil prices has caused many North American oil producers, who form a significant part of Gibsons customer base, to lower their near term capital spending plans. This is expected to impact the overall rate of North American production growth over the short-term. Over the medium to long-term, as crude oil supply and demand rebalances and crude oil prices realign with global cost structures the Company anticipates a return to increased activity and production levels and a continued demand for midstream value chain assets;
- The growing supply of Canadian heavy crude oil from the oilsands will result in an increasing demand for diluent in the Western Canada Sedimentary Basin (the "WCSB"). This should result in increased movements of diluent through the Edmonton area pipeline and terminal infrastructure and may generate increased opportunities for Gibson's services;
- Crude oil pricing, location and quality disconnects combined with a shortage of pipeline takeaway capacity from the WCSB has created demand for crude by rail as a solution for export market access. While the recent decline in crude oil prices has negatively impacted the economics of this export alternative, the Company expects that a return to higher oil prices should create opportunities for the Company to increase its service offering to include more crude rail movements;
- The Keystone XL and Energy East pipeline projects, if approved, would help provide the growing supply of Canadian crude oil access to the large refining markets in the United States, Eastern Canada and other foreign markets. If approved, the starting point for both pipelines would be adjacent to the Company's Hardisty Terminal which could provide increased opportunities for the Company's terminalling services;
- Enbridge's expansion of its Line 67 and replacement of its Line 3 will also help provide the growing supply of Canadian crude oil access to the largest refining markets in the United States and Eastern Canada. The additional capacity from Line 67 expansion is expected to be available in Q3 2015. The replacement of Line 3, if approved, could provide incremental capacity by 2018. Gibson's Hardisty Terminal is connected to deliver to both of these pipelines and these expansions should provide increased opportunities for the Company's terminalling services at Hardisty;
- Enbridge's twinning of the southern section of its Athabasca pipeline as well as Inter Pipeline Ltd.'s twinning of its Cold Lake pipeline should provide for additional volumes into the Hardisty area and increased opportunities for the Company's terminalling services at Hardisty;



- Price fluctuations between crude oil types can create incremental margin opportunities in multiple areas of the Company’s operations. While current price differentials have compressed in response to the recent decline in benchmark crude oil prices, the Company remains attentive to opportunities as this trend continues to evolve;
- The growing supply of propane related to higher liquids rich natural gas development has resulted in declining propane prices in Western Canada. This may result in increased volumes and potential margin improvement related to our Propane and NGL Marketing and Distribution segment;
- The recent reduction in the value of the Canadian dollar relative to the U.S. dollar highlights added foreign currency volatility which could result in both positive and negative impacts for the Company. A weakening Canadian dollar should result in increased profit contributions from the Company’s U.S. business. In addition, it would result in increased revenues and cost of sales for the Company’s Canadian operations that transact in U.S. dollars. Furthermore, a weakening Canadian dollar will result in an increase in foreign exchange losses with respect to the Company’s U.S. dollar denominated debt, which are partially offset by gains on foreign currency forward contracts and options;
- Over the medium to long-term the Company expects new technology for drilling and well completion methodology to be deployed towards conventional and unconventional production within the Company’s operating areas; and
- Over the medium to long-term the Company expects increased oil and natural gas production in North America should also mean a significant increase in produced water and other oilfield waste. This increase in oilfield waste, together with increased regulatory scrutiny, should increase demand for the Company’s Environmental Services solutions.

The Company believes the collective impact of these trends and developments, many of which are beyond the Company’s control, will result in an increasingly volatile crude oil market that is subject to more frequent short-term swings in market prices and grade differentials and shifts in market structure. Over the short-term, the Company anticipates that lower crude oil prices may create a challenging environment for some of the Company’s services however over the medium to long-term the Company feels demand for its services should remain strong.

**Capital expenditures**

The following table summarizes growth capital and upgrade and replacement capital (in thousands):

	Year ended December 31,	
	2014	2013
Growth capital.....	\$ 352,487	\$ 177,443
Upgrade and replacement capital.....	59,035	69,513
	\$ 411,522	\$ 246,956

Total expenditures for growth capital and upgrade and replacement capital were \$411.5 million and \$247.0 million in the year ended December 31, 2014 and 2013, respectively. In the year ended December 31, 2014 and 2013, \$391.2 million and \$238.5 million, respectively, were included as additions to property, plant and equipment and \$20.3 million and \$8.5 million, respectively, were included as additions to intangible assets.



*Growth capital*

The following table summarizes the Company’s growth capital by segment (in thousands):

	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Terminals and Pipelines <sup>(1)</sup> .....	\$ 220,916	\$ 101,300
Environmental Services <sup>(2)</sup> .....	68,430	46,649
Truck Transportation <sup>(3)</sup> .....	22,164	19,156
Propane and NGL Marketing and Distribution <sup>(4)</sup> .....	12,131	6,807
Processing and Wellsite Fluids <sup>(5)</sup> .....	13,979	2,528
Other <sup>(6)</sup> .....	14,867	1,003
<b>Total</b> .....	<b>\$ 352,487</b>	<b>\$ 177,443</b>

- (1) Expenditures in the year ended December 31, 2014 relate to a number of construction and expansion projects including the construction of additional tanks and related infrastructure at the Hardisty and Edmonton Terminals and the related infrastructure to connect the unit rail facility to the Hardisty Terminal.
- (2) Expenditures in the year ended December 31, 2014 relate to the expansion of existing and construction of new emulsion and waste treatment and salt water disposal facilities in both Canada and the United States and also the addition of equipment and rolling stock.
- (3) Largely represents the purchase of land in the Edmonton area and the initial costs for constructing a new office and maintenance facility.
- (4) Mainly represents the addition of trucks, tanks and generators to meet growing demand in key market areas and the expansion of rail infrastructure at a Company facility.
- (5) Expenditures in the year ended December 31, 2014 largely relates to increasing throughput capacity and rail capabilities at the facility in Moose Jaw.
- (6) Mainly includes the purchase of land in Strathcona County in Alberta’s Industrial Heartland as well as equipment and software related to information and operational systems.

*Upgrade and replacement capital*

Upgrade and replacement capital includes improvement projects that extend the physical life of an asset, while replacement capital includes purchases that replace existing assets as necessary to maintain current service levels or replace assets that no longer have a useful economic life. Upgrade and replacement capital decreased by 15% to \$59.0 million in the year ended December 31, 2014 from \$69.5 million in the year ended December 31, 2013. The decrease was mainly due to a reduction in the replacement of rolling stock within the Truck Transportation segment.

**Acquisitions**

On August 1, 2014, the Company acquired all of the issued and outstanding common shares of Cal-Gas for cash consideration of \$96.4 million. Cal-Gas is one of the largest propane distributors in Western Canada with operations in British Columbia, Alberta, Saskatchewan, Manitoba and Northwest Ontario. Cal-Gas has been in business for over 40 years, providing propane equipment, service and delivery to the oil and gas, commercial, mining and residential sectors.

On April 1, 2014, the Company acquired all of the issued and outstanding common shares of Stittco for cash consideration of \$32.1 million. Stittco provides propane equipment, service and delivery to residential and commercial and mining customers in Northern Manitoba and Northwest Territories.



**Seasonality**

The Company believes that seasonality does not have a material impact on its combined operations and segments. However, certain of the Company’s individual segments are impacted by seasonality. Generally, the Company’s second quarter results are impacted by road bans and other restrictions which impact overall activity levels in the WCSB and the northern United States, and therefore negatively impact the Company’s trucking, propane and wellsite fluids businesses in Canada and certain operations within Environmental Services in Canada and the United States.

Within the Company’s Processing and Wellsite Fluids segment, certain products are impacted by seasonality. Canadian road asphalt activity is affected by the impact of weather conditions on road construction. Refineries produce liquid asphalt year round, but road asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. In the off peak demand months for road asphalt, the demand for roofing flux continues. Demand for wellsite fluids is dependent on overall well drilling activity, with drilling activity normally the busiest in the winter months. As a result, the Company’s Processing and Wellsite Fluids segment’s sales of road asphalt peak in the summer and sales of wellsite fluids peak in the winter.

The Company’s Propane and NGL Marketing and Distribution segment is characterized by a high degree of seasonality driven by the impact of weather on the need for heating and the amount of propane required to produce power for oil and gas related applications. Therefore, volumes are low during the summer months relative to the winter months. Operating profits are also considerably lower during the summer months. Most of the annual segment profit is earned from October to March each year.

Within the Company’s Environmental Services segment, certain services and geographical regions are impacted by seasonality including the impact of weather and daylight hours. Due to exposure to weather, activity is generally the lowest in the winter months and shorter daylight hours during the winter months also result in lower overall service activity.

**SELECTED ANNUAL FINANCIAL MEASURES**

	Year ended December 31,		
	2014	2013	2012
	(in thousands except per share amounts)		
Revenue .....	\$ 8,573,529	\$ 6,940,669	\$ 4,913,029
Net income .....	91,941	103,816	116,186
<b>Earnings per share</b>			
Basic .....	\$ 0.74	\$ 0.86	\$ 1.13
Diluted .....	0.73	0.84	1.10
Dividends declared per common share.....	\$ 1.20	\$ 1.10	\$ 1.01
	As at December 31,		
	2014	2013	2012
Total assets .....	\$ 3,573,029	\$ 3,049,382	\$ 2,796,525
Total non-current liabilities .....	1,507,876	1,058,582	947,374



**SEGMENTED RESULTS OF OPERATIONS**

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

The following is a discussion of the Company’s segmented results of operations for the year ended December 31, 2014 and 2013 and the following table sets forth revenue and profit by segment for those periods:

	Year ended December 31,	
	2014	2013
	(in thousands)	
<b>Segment revenue</b>		
Terminals and Pipelines .....	\$ 157,969	\$ 132,144
Environmental Services.....	431,153	325,059
Truck Transportation.....	557,735	532,490
Propane and NGL Marketing and Distribution .....	1,352,741	1,151,206
Processing and Wellsite Fluids.....	667,793	611,097
Marketing .....	7,005,045	5,580,040
Total segment revenue.....	<u>10,172,436</u>	<u>8,332,036</u>
Revenue—inter-segmental .....	(1,598,907)	(1,391,367)
Total revenue—external .....	<u>8,573,529</u>	<u>6,940,669</u>
<b>Segment profit</b>		
Terminals and Pipelines .....	116,524	95,613
Environmental Services.....	100,273	83,094
Truck Transportation.....	83,178	83,674
Propane and NGL Marketing and Distribution .....	70,271	62,277
Processing and Wellsite Fluids.....	51,675	48,720
Marketing .....	65,180	83,004
Total segment profit .....	<u>487,101</u>	<u>456,382</u>
General and administrative.....	37,385	34,664
Depreciation and amortization .....	209,925	184,057
Stock based compensation.....	13,977	8,271
Debt extinguishment costs.....	-	38,209
Foreign exchange loss .....	31,519	15,725
Net interest expense .....	66,766	52,987
Gain on financial instruments relating to interest expense.....	-	(18,252)
Income before income tax .....	<u>127,529</u>	<u>140,721</u>
Income tax provision.....	35,588	36,905
Net income .....	<u>\$ 91,941</u>	<u>\$ 103,816</u>

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

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



## Terminals and Pipelines

The following tables set forth the operating results from the Company's Terminals and Pipelines segment:

Volumes (barrels in thousands)	Year ended December 31,	
	2014	2013
<b>Terminals</b>		
Hardisty Terminal .....	184,519	144,940
Edmonton Terminal .....	16,822	17,161
Injection stations .....	47,154	46,582
Total terminals.....	248,495	208,683
	Year ended December 31,	
	2014	2013
	(in thousands)	
Revenues .....	\$ 157,969	\$ 132,144
Operating expenses and other.....	41,445	36,531
Segment profit.....	\$ 116,524	\$ 95,613

*Volumes, revenues and cost of sales.* Hardisty Terminal volumes increased by 27% in the year ended December 31, 2014 compared to the year ended December 31, 2013, as a result of increased throughput volumes from customers with dedicated tank usage and increased volumes from the Company's crude oil train rail loading facility which commenced operations in June 2014. Revenue at the Hardisty Terminal increased by \$23.3 million in the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase in revenue was mainly due to the increase in volume and the additional revenue from customers with dedicated tank usage that are subject to minimum volume charges, and in particular, due to the impact of two new tanks at the east side of the Hardisty Terminal that were commissioned in October 2014. Revenue also increased due to the commencement of operations at the crude oil train rail loading facility in June 2014.

Edmonton Terminal volumes decreased by 2% in the year ended December 31, 2014 compared to the year ended December 31, 2013 mainly due to various tanks being taken out of service to facilitate the expansion of the facility, offset in part by the increase in diesel receipt volumes from a major customer. Although volumes at the Edmonton Terminal decreased, revenues increased by \$1.9 million in the year ended December 31, 2014 compared to the year ended December 31, 2013 as a result of the impact of minimum volume charges and an increase in fixed fee arrangements.

Injection station volumes increased by 1% in the year ended December 31, 2014 compared to the year ended December 31, 2013 due to an increase in activity with a major customer in the fourth quarter of 2014. As a result of increased volumes and the impact of foreign exchange rates on translating revenue denominated in U.S dollars, revenue increased by \$0.1 million in the year ended December 31, 2014 compared to the year ended December 31, 2013.

*Operating expenses and other.* Overall operating expenses increased by \$4.9 million, or 13%, in the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase was largely related to the increase in operating costs due to the expansion of the Hardisty Terminal and costs incurred related to the crude oil train rail loading facility that was commissioned in June 2014.

*Segment profit.* Overall, segment profit in the year ended December 31, 2014 increased by \$20.9 million, or 22%, compared to the year ended December 31, 2013. The increase was primarily due to an overall increase in volumes, the impact of additional customers with dedicated tank usage that are subject to minimum volume charges, and the commencement of operations for the crude oil train rail loading facility, offset in part by an increase in operating costs.



**Environmental Services**

The following tables set forth operating results from the Company’s Environmental Services segment:

	Year ended December 31,	
	2014	2013
	(in thousands)	
<b>Revenues</b>		
Environmental services and fluid handling .....	\$ 312,806	\$ 214,595
Production services.....	66,344	68,713
Other services .....	52,003	41,751
Total revenues .....	431,153	325,059
Cost of sales .....	256,990	183,133
Operating expenses and other.....	73,890	58,832
Segment profit.....	<u>\$ 100,273</u>	<u>\$ 83,094</u>

*Revenues and cost of sales.* Environmental services and fluid handling revenues increased by 46% in the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase was primarily driven by an increase in the fluid disposal business in the United States and the impact of an increase in volumes processed at the Canadian environmental processing facilities. Further, the increase was also due to the favorable impact of the change in foreign exchange rates on translating revenue denominated in U.S. dollars from the Company’s United States operations.

Production services revenue decreased by 3% in the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease was primarily due to the impact of lower overall activity, pricing pressure related to additional competition and weather conditions which negatively impacted the first and third quarters of 2014 in the United States. The decrease was offset by the favorable impact of the change in foreign exchange rates on translating revenue denominated in U.S. dollars from the Company’s United States operations.

Other services revenue increased by 25% in the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to an increase in exploration support services revenue resulting from increased seismic activity in the United States, partially offset by lower accommodations revenue due to the impact of additional competition in the Bakken region. Further, the increase was also due to the favorable impact of the change in foreign exchange rates on translating revenue denominated in U.S. dollars from the segment’s U.S. operations.

Cost of sales increased by 40% in the year ended December 31, 2014 as compared to the year ended December 31, 2013, as a result of increased activity and also due to the unfavorable impact of translating costs of sales denominated in U.S. dollars.

*Operating expenses and other.* Operating costs increased by \$15.1 million in the year ended December 31, 2014 as compared to the year ended December 31, 2013, mainly due to increased payroll related costs and also due to the unfavorable impact of translating operating costs denominated in U.S. dollars.

*Segment profit.* Segment profit increased by \$17.2 million in the year ended December 31, 2014 as compared to the year ended December 31, 2013, largely as a result of the impact of improved margins in the environmental services and fluid handling operations.



### Truck Transportation

The following tables set forth the operating results from the Company's Truck Transportation segment:

Volumes (barrels in thousands)	Year ended December 31,	
	2014	2013
Barrels hauled.....	131,998	144,340

	Year ended December 31,	
	2014	2013
	(in thousands)	
Revenues .....	\$ 557,735	\$ 532,490
Cost of sales .....	376,685	352,728
	181,050	179,762
Operating expenses and other.....	97,872	96,088
Segment profit.....	\$ 83,178	\$ 83,674

*Volumes, revenues and cost of sales.* For the year ended December 31, 2014, barrels hauled decreased by 9% compared to the year ended December 31, 2013. The decrease was mainly due to the impact of adverse weather conditions in both Canada and the United States that limited the Company's ability to haul in certain regions on a short-term basis and also a decline in overall volumes hauled of sulphur and petroleum coke particularly in the first quarter of 2014.

Despite the decrease in volumes, revenues increased 5% in the year ended December 31, 2014 as compared to the year ended December 31, 2013. The impact of decreased volumes was offset by increased rates for spot hauling activities due to more long haul opportunities, increased service related charges, and also the favorable foreign exchange impact of translating revenue denominated in U.S. dollars from the Company's United States operations.

Cost of sales is primarily comprised of payments to owner-operators and lease operators. Cost of sales increased by 7% in the year ended December 31, 2014 compared to the year ended December 31, 2013 due to the overall increase in revenues and an increase in service related activities from Canadian operations.

*Operating expenses and other.* Overall operating expenses increased by \$1.8 million, or 2%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, mainly due to the unfavorable impact of translating operating costs denominated in U.S. dollars partially offset by the impact of a gain of \$1.5 million on sale of certain property, plant and equipment.

*Segment profit.* Segment profit decreased by \$0.5 million, or 1%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to the impact of lower margins, offset in part by lower operating costs.





**Propane and NGL Marketing and Distribution**

The following tables set forth operating results from the Company’s Propane and NGL Marketing and Distribution segment:

Volumes	Year ended December 31,	
	2014	2013
<b>Sales volumes—Industrial (litres in thousands)</b>		
Oil and gas .....	250,173	207,449
Commercial .....	126,448	89,960
Automotive .....	20,786	21,108
Residential .....	39,292	22,824
Other .....	34,899	21,627
	<u>471,598</u>	<u>362,968</u>
<b>Sales volumes—wholesale (barrels in thousands)</b>		
Propane .....	3,129	4,656
Other NGLs		
Butane.....	2,986	2,046
Condensate .....	3,864	1,980
U.S. division .....	3,220	4,332
	<u>10,070</u>	<u>8,358</u>
	<b>Year ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Revenues</b>		
Industrial		
Propane.....	\$ 248,776	\$ 170,144
Other .....	29,721	23,855
Total industrial.....	<u>278,497</u>	<u>193,999</u>
Wholesale		
Propane.....	228,771	235,828
Other NGLs.....	845,473	721,379
Total wholesale.....	<u>1,074,244</u>	<u>957,207</u>
Total revenues .....	1,352,741	1,151,206
Cost of sales .....	1,206,361	1,028,479
Operating expenses and other.....	76,109	60,450
Segment profit.....	<u>\$ 70,271</u>	<u>\$ 62,277</u>

*Volumes, revenues and cost of sales.* Industrial volumes increased by 30% in the year ended December 31, 2014 compared to the year ended December 31, 2013, largely due to the increased volumes in the oil and gas, commercial, and residential markets as a result of the Cal-Gas and Stittco acquisitions completed during 2014.

Industrial propane revenues increased 46% in the year ended December 31, 2014 as compared to the year ended December 31, 2013, as a result of higher sales volumes and overall rack prices. Other industrial revenue relates to equipment sales, service labour and rental and delivery charges. Other industrial revenue increased by 25% in the year ended December 31, 2014 compared to the year ended December 31, 2013, largely due to the Company’s investment in related equipment and the impact of the Cal-Gas and Stittco acquisitions.

Wholesale propane volumes decreased by 33% in the year ended December 31, 2014 compared to the year ended December 31, 2013. The decrease in volumes was largely driven by the impact of lower propane demand by certain customers. Wholesale propane revenues decreased by 3% in the year ended December 31, 2014 compared to the year ended December 31, 2013 due to lower propane volumes, offset in part by higher overall propane wholesale prices.

Other NGLs volumes increased by 20% in the year ended December 31, 2014 as compared to the year ended December 31, 2013, primarily as a result of higher demand from internal and external customers. As a result of the increase in volumes, other NGLs revenues increased by 17% in the year ended December 31, 2014 as compared to the year ended December 31, 2013.



Cost of sales increased 17% in the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to the increases in both industrial and wholesale business. The increase in industrial cost of sales was due to the impact of the acquisitions of Cal-Gas and Stittco completed during 2014. The increase in wholesale cost of sales was largely in line with increased revenue.

*Operating expenses and other.* Overall operating expenses increased by \$15.7 million, or 26%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to the impact of the Cal-Gas and Stittco acquisitions.

*Segment profit.* The Propane and NGL Marketing and Distribution segment profit increased in the year ended December 31, 2014 by \$8.0 million, or 13%, compared to the year ended December 31, 2013 as a result of the increase in industrial and wholesale propane segment profit partially offset by lower wholesale other NGLs segment profit. Increased industrial segment profit was mainly due to the higher volumes as a result of the acquisitions of Cal-gas and Stittco acquisitions completed during 2014. Higher wholesale propane segment profit was positively impacted by the increase in overall higher wholesale propane prices. Lower other NGLs segment profit was primarily due to the impact of unfavorable pricing conditions.

**Processing and Wellsite Fluids**

The following tables set forth operating results from the Company’s Processing and Wellsite Fluids segment:

Volumes (barrels in thousands)	Year ended December 31,	
	2014	2013
Roofing flux .....	1,830	2,076
Road asphalt .....	470	186
Frac oils (Gibson Clear and light straight run distillate) .....	539	466
Distillate (D822).....	754	835
Tops.....	2,117	1,909
Other.....	222	152
Total sales volumes .....	5,932	5,624

	Year ended December 31,	
	2014	2013
(in thousands)		
<b>Revenues</b>		
Road asphalt and roofing flux .....	\$ 247,423	\$ 234,887
Frac oils (Gibson Clear and light straight run distillate) .....	77,897	59,353
Distillate (D822).....	110,914	118,632
Tops.....	192,512	174,071
Other.....	39,047	24,154
Total revenues .....	667,793	611,097
Cost of sales .....	594,331	540,182
Operating expenses and other.....	21,787	22,195
Segment profit.....	\$ 51,675	\$ 48,720

*Volumes, revenues and cost of sales.* Sales volumes for road asphalt increased by 153% in the year ended December 31, 2014 compared to the year ended December 31, 2013 mainly due to an increase in demand from customers as a result of increased paving activities. Sales volumes for roofing flux decreased by 12% in the year ended December 31, 2014 compared to the year ended December 31, 2013 due to an increase in the amount of asphalt being sold as road asphalt. Road asphalt and roofing flux revenue increased by 5% in the year ended December 31, 2014 compared to year ended December 31, 2013 mainly due to the impact of higher road asphalt volumes.

Frac oils volumes increased 16% in the year ended December 31, 2014 compared to the year ended December 31, 2013 largely due to an overall increase in customer demand. Frac oils revenues increased by 31% in the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to higher overall selling prices and higher sales volumes.

Sales volumes for distillate decreased 10% in the year ended December 31, 2014 compared to the year ended December 31, 2013 due to more volumes being sold as frac oils and due to lower customer demand in the United States, particularly in the fourth quarter of 2014. As a result of lower volumes, distillate revenues decreased by 7% in the year ended December 31, 2014, compared to the year ended December 31, 2013.



Tops volumes increased 11% in the year ended December 31, 2014 as compared to the year ended December 31, 2013 due to an increase in customer demand. As a result, tops revenues increased by 11% in the year ended December 31, 2014 compared to the year ended December 31, 2013.

Other volumes include the sale of the Company’s oil based mud product (“OBM”) and solvents. Other volumes increased by 46% in the year ended December 31, 2014 as compared to the year ended December 31, 2013, largely driven by increased demand for the Company’s OBM product. Other revenue increased by 62% in the year ended December 31, 2014 as compared to the year ended December 31, 2013 largely due to the increase in volumes.

The overall cost per barrel for the suite of products sold by the Processing and Wellsite Fluids segment increased by 4% due to the increase in crude oil costs driven by tighter differentials and a negative foreign exchange impact on crude oil purchases denominated in U.S. dollars, particularly in the fourth quarter of 2014.

Overall margins increased by \$2.5 million, or 4%, in the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase was largely due to increased margins for frac oils, distillate and other products, offset in part by lower overall margins for roofing flux, road asphalt and tops.

*Operating expenses and other.* Operating expenses decreased by \$0.4 million, or 2%, in the year ended December 31, 2014 as compared to the year ended December 31, 2013. Operating expenses decreased mainly due to an increase in foreign exchange gains on realizing U.S. dollar denominated and other revenue.

*Segment profit.* The Processing and Wellsite Fluids segment profit increased in the year ended December 31, 2014 by \$2.9 million, or 6%, as compared to the year ended December 31, 2013, primarily due to higher margins for frac oils, distillate and other products and lower operating costs, partially offset by lower overall margins for roofing flux, asphalt, and tops.

**Marketing**

The following tables set forth the operating results from the Company’s Marketing segment:

Volumes (barrels in thousands)	Year ended December 31,	
	2014	2013
Sales Volumes		
Crude and diluent .....	120,676	103,549

	Year ended December 31,	
	2014	2013
	(in thousands)	
Revenues .....	\$ 7,005,045	\$ 5,580,040
Cost of sales .....	6,931,758	5,487,361
Operating expenses and other.....	8,107	9,675
Segment profit .....	\$ 65,180	\$ 83,004

The following tables set forth the monthly average NYMEX benchmark price of West Texas Intermediate crude oil (U.S.\$):

Calendar Period	2014	2013
January .....	\$ 94.86	\$ 94.83
February .....	100.68	95.32
March .....	100.51	92.96
April .....	102.03	92.07
May .....	101.79	94.80
June .....	105.15	93.80
July.....	102.39	104.67
August.....	96.08	106.57
September .....	93.03	106.24
October .....	84.34	100.55
November .....	75.81	93.93
December .....	59.29	97.89
Average for the year ended December 31 .....	92.99	97.80



*Volumes, revenues and cost of sales.* Sales volumes for crude and diluent increased by 17% in the year ended December 31, 2014, due to a continued focus on bringing volumes to the Company's integrated assets. Revenue increased by 26% in the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to higher volumes, higher crude oil prices in the first half of the year and the impact of a tightening in crude oil differentials during the year.

Cost of sales increased by 26% in the year ended December 31, 2014 compared to the year ended December 31, 2013 mainly due to the increase in revenue.

*Operating expenses and other.* Operating expenses decreased by \$1.6 million, or 16%, in the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to lower payroll related costs.

*Segment profit.* The Marketing segment profit decreased by \$17.8 million, or 21%, in the year ended December 31, 2014 as compared to the year ended December 31, 2013. In the year ended December 31, 2014, overall margins were positively impacted by the increase in volumes, especially deliveries to the Company's terminals, including crude oil shipped via rail at the Company's various rail loading facilities. However, lower margins were earned in the year ended December 31, 2014 compared to the year ended December 31, 2013 which led to the overall decrease in segment profitability.

#### **General and administrative, excluding depreciation and amortization**

General and administrative expense ("G&A") is comprised of costs incurred for executive services, accounting, finance, treasury, legal, human resources, investor relations and communications that are incurred at a corporate level and are not related to a specific segment. G&A expense was \$37.4 million in the year ended December 31, 2014 compared to \$34.7 million in the year ended December 31, 2013. The increase was largely driven by the continued growth of the Company resulting in an increase in payroll related costs.

#### **Depreciation and amortization**

Depreciation and amortization expense was \$209.9 million in the year ended December 31, 2014 compared to \$184.1 million in the year ended December 31, 2013. The increase was largely due to the additional depreciation and amortization related to the increase in the Company's tangible assets resulting from the completion of capital projects and the completion of the Cal-Gas and Stittco acquisitions during 2014.

#### **Stock based compensation**

Stock based compensation expense was \$14.0 million in the year ended December 31, 2014 compared to \$8.3 million in the year ended December 31, 2013. The increase was primarily due to granting of additional annual stock awards in 2014 as a result of the expansion of the equity incentive plan to include more employees.

#### **Debt extinguishment costs**

On June 28, 2013, upon the issuance of senior unsecured notes and the revolving credit facility, the Company repaid and terminated its previous senior secured credit facility which was comprised of a Tranche B Term Loan facility of U.S.\$650.0 million and a revolving credit facility of U.S.\$375.0 million. Accordingly, the Company recorded debt extinguishment costs of \$38.2 million in the year ended December 31, 2013. No similar debt extinguishment costs were incurred in the year ended December 31, 2014.

#### **Foreign exchange loss (gain) not affecting segment profit**

In the year ended December 31, 2014, the Company recorded a foreign exchange loss of \$31.5 million compared to \$15.7 million in the year ended December 31, 2013.

The gains and losses recorded are primarily as a result of the impact of the movement in exchange rates on the Company's U.S. dollar denominated long-term debt and related financial instruments. In the year ended December 31, 2014, a loss of \$52.0 million was recorded due to the unfavorable movement in exchange rates on the Company's U.S. dollar denominated long-term debt. This was partially offset by a gain of \$16.6 million, related to the change in mark-to-market value of U.S. dollar forward contracts and options used to mitigate the currency risk associated with the Company's U.S. dollar denominated long-term debt. In the year ended December 31, 2013, a loss of \$42.5 million was recorded due to the unfavorable movement in exchange rates on the Company's U.S. dollar denominated long-term debt. This was partially offset by a gain of \$22.5 million, related to the change in mark-to-market value of U.S. dollar denominated forward contracts and options used to mitigate the currency risk associated with the Company's U.S. dollar denominated long-term debt.



**Net interest expense**

Net interest expense, excluding the non-cash movement in financial instruments relating to interest expense, was \$66.8 million in the year ended December 31, 2014 compared to \$52.9 million in the year ended December 31, 2013. The increase was primarily due to an increase in interest charges as a result of the increase in outstanding debt balance.

**Financial instruments relating to interest expense**

In the year ended December 31, 2013, the Company recorded a gain of \$18.3 million relating to an embedded derivative on an interest rate floor within the Company’s Tranche B Term Loan that was required to be separated from the carrying value of long-term debt and was accounted for as a separate financial instrument that was measured at fair value at each balance sheet date. Following the repayment of the Tranche B Term Loan on June 28, 2013, the Company no longer has an embedded derivative relating to the interest rate floor.

**Income tax expense**

Income tax expense was \$35.6 million in the year ended December 31, 2014 compared to \$36.9 million in the year ended December 31, 2013 with the decrease due to lower income before taxes in the current year. The effective tax rate was 27.9% during the year ended December 31, 2014, compared to 26.2% in the year ended December 31, 2013, respectively. The main reason for the increase in the effective rate was the increase in non-deductible net capital losses related to foreign exchange losses on the Company’s long-term debt. The non-deductible net capital losses for the year ended December 31, 2014 were \$9.4 million.

**Fourth Quarter Results**

	<b>Three months ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	(in thousands)	
<b>Segment revenue</b>		
Terminals and Pipelines .....	\$ 44,087	\$ 35,208
Environmental Services.....	115,185	81,386
Truck Transportation.....	144,097	134,102
Propane and NGL Marketing and Distribution .....	383,265	369,418
Processing and Wellsite Fluids.....	162,253	156,930
Marketing .....	1,502,860	1,424,424
Total segment revenue.....	<u>2,351,747</u>	<u>2,201,468</u>
Revenue – inter-segmental .....	(375,282)	(285,430)
Total revenue – external .....	<u>1,976,465</u>	<u>1,916,038</u>
<b>Segment profit</b>		
Terminals and Pipelines .....	34,020	25,065
Environmental Services.....	28,097	22,564
Truck Transportation.....	22,743	22,165
Propane and NGL Marketing and Distribution .....	15,524	23,204
Processing and Wellsite Fluids.....	14,807	13,612
Marketing .....	14,332	16,733
Total segment profit .....	<u>129,523</u>	<u>123,343</u>
General and administrative.....	10,984	9,310
Depreciation and amortization .....	58,338	52,002
Stock based compensation.....	3,827	2,258
Foreign exchange loss .....	15,269	15,056
Net interest expense .....	19,273	14,662
Income before income tax .....	21,832	30,055
Income tax provision.....	8,426	9,331
Net income .....	<u>\$ 13,406</u>	<u>\$ 20,724</u>



Segment revenue increased by \$60.4 million in the three months ended December 31, 2014 compared to the three months ended December 31, 2013. Changes in segment revenue were as follows:

- Terminals and Pipelines segment revenue for the three months ended December 31, 2014 increased by \$8.9 million compared to the three months ended December 31, 2013. The increase was largely due to an increase in revenue at the Hardisty Terminal resulting from an increase in revenue from customers with dedicated tank usage that are subject to minimum volumes and fixed fee arrangements, two additional large tanks coming into service and revenue from the commencement of operations at the crude oil train rail loading facility;
- Environmental Services segment revenue increased by \$33.8 million in the three months ended December 31, 2014 as compared to the year ended December 31, 2013 mainly due to increased volumes at the Company's Canadian environmental services facilities and an increase in the U.S. fluid disposal business;
- Truck Transportation segment revenue increased by \$9.9 million mainly as a result of increased rates for spot hauling activities due to more long haul opportunities, increased service related charges, and also the favorable foreign exchange impact of translating revenue denominated in U.S. dollars from the Company's United States operations;
- Propane and NGL Marketing and Distribution segment revenue increased by \$13.8 million due to higher industrial sales volumes realized from the Cal-gas and Stittco acquisitions, offset in part by lower wholesale revenue;
- Processing and Wellsite Fluids segment revenue increased by \$5.3 million due to an increase in demand for road asphalt, frac oils and tops and OBM products, partially offset by lower roofing flux and distillate revenues; and
- Marketing segment revenue increased by \$78.4 million which was driven by the impact of higher volumes.

Segment profit increased by \$6.2 million or 5% in the three months ended December 31, 2014 compared to the three months ended December 31, 2013. The increase in segment profit was due to:

- Terminals and Pipelines segment profit increased by \$8.9 million, largely due to increased volumes through the Company's terminals and the additional profit from customers with dedicated tank usage and the impact of the commencement or start-up of operations at the crude oil train rail loading facility;
- Environmental Services segment profit increased \$5.5 million largely as a result of an increase in volumes from the Canadian environmental services facilities and an increase in the U.S. fluid disposal business;
- Truck Transportation segment profit increased by \$0.6 million with the increase in revenues largely offset by higher operating costs;
- Propane and NGL Marketing and Distribution segment profit decreased by \$7.7 million due to reduced margins from the wholesale business, largely as a result of lower volumes and unfavorable pricing conditions;
- Processing and Wellsite Fluids segment profit increased by \$1.2 million, primarily as a result of higher margins on asphalt, frac oils and OBM products, partially offset by lower tops and distillate revenues; and
- Marketing segment profit decreased by \$2.4 million mainly due to lower margins partially offset by the impact of higher volumes.

Net income was \$13.4 million in the three months ended December 31, 2014 compared to \$20.7 million in the three months ended December 31, 2013. Net income decreased due to higher interest, depreciation and amortization, general and administrative and stock based compensation expenses.



## SUMMARY OF QUARTERLY RESULTS

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

Three months ended (in thousands)	2014				2013			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Revenues .....	\$1,976,465	\$2,360,007	\$2,126,365	\$2,110,692	\$1,916,038	\$1,841,894	\$1,619,726	\$1,563,011
Net income (loss) .....	13,406	8,542	23,838	46,155	20,724	42,599	(5,235)	45,728
EBITDA <sup>(1)</sup> .....	100,001	89,272	89,798	125,981	96,806	115,385	33,060	114,733
Adjusted EBITDA <sup>(2)</sup> .....	119,302	114,134	82,684	136,945	115,284	103,533	87,176	121,044
Earnings (loss) per share								
Basic .....	0.10	0.07	0.19	0.38	0.17	0.35	(0.04)	0.38
Diluted .....	0.10	0.07	0.19	0.37	0.16	0.35	(0.04)	0.37

(1) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA consists of net income (loss) before interest expense, income taxes, depreciation, and amortization.

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

The Company presents EBITDA because it considers it to be an important supplemental measure of the Company's performance and believes this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. EBITDA has limitations as an analytical tool, and readers should not consider this item in isolation, or as a substitute for an analysis of the Company's results as reported under IFRS. Some of these limitations are:

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



Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of the Company's business. The Company compensates for these limitations by relying primarily on the Company's IFRS results and using EBITDA only supplementally. The following table reconciles consolidated net income (loss) to EBITDA:

Three months ended (in thousands)	2014				2013			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Net income (loss).....	\$ 13,406	\$ 8,542	\$ 23,838	\$ 46,155	\$ 20,724	\$ 42,599	\$ (5,235)	\$ 45,728
Depreciation and amortization.....	58,338	53,510	49,264	48,813	52,002	44,460	44,942	42,653
Interest expense <sup>(1)</sup> .....	19,831	18,774	15,331	13,662	14,749	14,901	(5,286)	10,842
Income tax expense (recovery) .....	8,426	8,446	1,365	17,351	9,331	13,425	(1,361)	15,510
EBITDA .....	\$ 100,001	\$ 89,272	\$ 89,798	\$ 125,981	\$ 96,806	\$ 115,385	\$ 33,060	\$ 114,733

(1) Interest expense includes the impact of the change in net unrealized gains or losses attributable to movement in the mark to market valuation of financial instruments relating to interest expense.

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

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





The following tables reconcile EBITDA to Adjusted EBITDA for each of the last eight quarters and Pro Forma Adjusted EBITDA for the year ended December 31, 2014 and 2013:

	Three months ended				Year ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2014
	(in thousands)				
EBITDA .....	\$ 100,001	\$ 89,272	\$ 89,798	\$ 125,981	\$ 405,052
Unrealized foreign exchange loss (gain) on long-term debt <sup>(1)</sup> ...	21,615	29,260	(19,725)	20,850	52,000
Net unrealized loss (gain) from financial instruments <sup>(2)</sup> .....	(6,141)	(8,361)	9,064	(13,014)	(18,452)
Share based compensation <sup>(3)</sup> .....	3,827	3,642	3,380	3,128	13,977
Acquisition related costs <sup>(5)</sup> .....	-	321	167	-	488
Adjusted EBITDA .....	\$ 119,302	\$ 114,134	\$ 82,684	\$ 136,945	\$ 453,065
Pro forma impact of acquisitions <sup>(6)</sup> .....					5,129
Pro Forma Adjusted EBITDA .....					\$ 458,194

	Three months ended				Year ended
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2013
	(in thousands)				
EBITDA .....	\$ 96,806	\$ 115,385	\$ 33,060	\$ 114,733	\$ 359,984
Unrealized foreign exchange loss (gain) on long-term debt <sup>(1)</sup> ...	17,549	(11,350)	22,898	13,354	42,451
Net unrealized (gain) from financial instruments <sup>(2)</sup> .....	(1,329)	(2,867)	(9,014)	(8,668)	(21,878)
Share based compensation <sup>(3)</sup> .....	2,258	2,365	2,023	1,625	8,271
Debt extinguishment costs <sup>(4)</sup> .....	-	-	38,209	-	38,209
Adjusted EBITDA .....	\$ 115,284	\$ 103,533	\$ 87,176	\$ 121,044	\$ 427,037
Pro forma impact of acquisitions <sup>(6)</sup> .....					-
Pro Forma Adjusted EBITDA .....					\$ 427,037

- (1) Non-cash adjustment representing the unrealized foreign exchange loss (gain) on long-term debt, as a result of the movement in exchange rates in the periods.
- (2) Reflects the exclusion of the movement in the mark-to-market valuation of financial instruments used in risk management activities. The Company uses crude oil and NGL priced futures, options and swaps to manage the exposure to commodities price movements and foreign currency forward contracts and options to manage foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.
- (3) Represents the non-cash stock based compensation relating to the Company's equity incentive plan.
- (4) In connection with the repayment of the Company's long-term debt and termination of the previous revolving credit facility, the Company recorded \$38.2 million of non-cash debt extinguishment expenses in the three months ended June 30, 2013.
- (5) Represents transaction fees that were expensed in connection with acquisitions made by the Company.
- (6) Reflects the pro forma impact of acquisitions on the Company's Pro Forma Adjusted EBITDA as if the acquisitions that took place in the twelve months occurred on January 1 of each twelve month period.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity and capital resource needs are to fund ongoing capital expenditures, growth opportunities and acquisitions and to fund its targeted dividend level. In addition, the Company must service its debt, including interest payments and finance working capital needs. The Company relies on its cash flow from operations, debt and equity financings and borrowings under the Company's Revolving Credit Facility for liquidity.

The Company's operating cash flow has historically been affected by the overall profitability of sales within the Company's segments, the Company's ability to invoice and collect from customers in a timely manner and the Company's ability to efficiently implement the Company's acquisition strategy and manage costs. The Company's cash, cash equivalents and cash flow



from operations have historically been sufficient to meet the Company’s working capital, capital expenditure and debt servicing requirements.

The following table summarizes the Company’s sources and uses of funds for the year ended December 31, 2014 and 2013:

	Year ended December 31,	
	2014	2013
	(in thousands)	
<b>Statement of Cash Flows</b>		
<b>Cash flows provided by (used in):</b>		
Operating activities .....	\$ 336,228	\$ 331,631
Investing activities.....	(495,015)	(232,250)
Financing activities .....	188,199	(66,672)

**Cash provided by operating activities**

The primary drivers of cash flow from operating activities are the collection of amounts related to sales of products such as crude oil, propane, NGLs, asphalt and other products and fees for services provided associated with the Company’s Truck Transportation, Terminals and Pipelines and Environmental Services segments. Offsetting these collections are payments for purchases of crude oil and other products and other expenses. Other expenses primarily consist of owner-operator and lease operator payments for the provision of contract trucking services, field operating expenses and G&A expenses. Historically, the Marketing and the Processing and Wellsite Fluids segments have been the most variable with respect to generating cash flows due to the impact of crude oil price levels and the volatility that price changes and crude oil grade basis changes have on the cash flows and working capital requirements of these segments.

Cash provided by operations in the year ended December 31, 2014 was \$336.2 million compared to \$331.6 million in the year ended December 31, 2013. The increase was primarily attributable to increases in overall segment profitability, partially offset by an increase in net accounts receivable and accounts payable and income tax paid.

**Cash used in investing activities**

Cash used in investing activities consists primarily of expenditures for growth capital, upgrade and replacement capital and business acquisitions.

Cash used in investing activities was \$495.0 million in the year ended December 31, 2014 compared to \$232.3 million in the year ended December 31, 2013. The increase in cash used in investing activities was due largely to the Cal-Gas and Stittco acquisitions and capital expenditures in 2014. For a summary of capital expenditures, see “Capital expenditures” included in this MD&A.

**Cash provided by (used in) financing activities**

Cash provided by financing activities was \$188.2 million compared to cash used in financing activities of \$66.7 million in the year ended December 31, 2013.

The main reason for the change in the year ended December 31, 2014 compared to December 31, 2013 was primarily the completion of the debt offering and amendment for net proceeds of \$352.0 million offset in part by the payment of net cash dividends of \$108.2 million and interest of \$62.1 million.

In addition, in the year ended December 31, 2013, the Company completed the notes offering on June 28, 2013 for proceeds, net of issue discount of, \$764.2 million, which was offset in part by the repayment of the Tranche B Term Loan of \$678.1 million. During the year ended December 31, 2013, the Company also paid debt issue and financing costs of \$16.2 million, paid net cash dividends of \$93.9 million, paid interest of \$19.8 million, received net proceeds of \$8.7 million on settlement of certain derivative financial instruments relating to interest expense and foreign exchange and received proceeds of \$1.2 million on the exercise of stock options.

**Liquidity sources, requirements and contractual cash requirements and commitments**

The Company believes that cash on hand, together with cash from operations and borrowings under the Revolving Credit Facility, will be adequate to meet its working capital needs, upgrade and replacement capital expenditures, currently sanctioned growth capital projects, debt service, targeted dividend level and other cash requirements for at least the next twelve months. The Company had unrestricted cash of \$131.9 million and \$442.5 million available under the Revolving Credit Facility as at December 31, 2014.



The Company's ability to make interest payments on the Company's indebtedness, to pay targeted dividends and to fund the Company's other liquidity requirements will depend on the Company's ability to generate cash in the future. In the three months ended December 31, 2014, the Company declared a dividend of \$0.30 per share for a total dividend of \$37.3 million, of which \$29.1 million was paid in cash on January 16, 2015 with the remainder of the dividend being settled with the issuance of common shares to shareholders participating in the Company's dividend reinvestment plan ("DRIP") and stock dividend program ("SDP"). The declaration of dividends is considered on a quarterly basis and is at the sole discretion of the Board and will be determined on the basis of earnings, financial requirements for operations and a solvency calculation.

Capital expenditures amounted to \$411.5 million in the year ended December 31, 2014. As previously announced, the Company's planned capital expenditures for 2015 are expected to be approximately \$510.0 million. While the Company anticipates that these planned capital expenditures will occur, they are subject to general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond the Company's control.

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

On June 12, 2014, the Company closed a Senior Unsecured Notes offering consisting of \$300.0 million aggregate principal amount of 5.375% Senior Unsecured Notes due July 15, 2022 and U.S.\$50.0 million aggregate principal amount of 6.75% Senior Unsecured Notes due July 15, 2021. The net proceeds from this offering were used to repay all outstanding indebtedness under its existing Revolving Credit Facility (excluding letters of credit), with the remaining net proceeds used to fund capital expenditures and general corporate purposes.

As of December 31, 2014, the Company had total outstanding Senior Unsecured Notes, excluding debt discount and the issuance costs, of U.S.\$550.0 million bearing fixed interest of 6.75% per annum due July 15, 2021, \$250.0 million bearing fixed interest of 7.00% per annum due July 15, 2020 and \$300.0 million bearing fixed interest of 5.375% per annum due July 15, 2022 (collectively the "Notes"). Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding.

The Notes agreements contain certain redemption options whereby the Company can redeem all or part of the Notes subject to certain premiums if such prepayment occurs prior to the dates specified in the agreements. In addition, the Note holders have the right to require the Company to redeem the Notes or a portion thereof, at the redemption prices set forth in the agreements in the event of change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the agreements.

On August 20, 2014, the Company amended the terms of its \$500.0 million secured revolving credit facility to, among other things, release all security held by its lenders, to extend the maturity date from June 2018 to August 2019 and to revise the definition of senior debt leverage ratio to consist of total debt excluding subordinated debt.

The Revolving Credit Facility of \$500.0 million, the proceeds of which are available to provide financing for working capital and other general corporate purposes, has an accordion feature whereby the Company can increase the Revolving Credit Facility to \$750.0 million subject to obtaining incremental lender commitments. The Revolving Credit Facility has an extendible term of five years, expiring on August 15, 2019. The Revolving Credit Facility provides sub-facilities for letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or U.S. LIBOR or Canadian Bankers Acceptance Rate as the case may be plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company's total debt leverage ratio. In addition, the Company must pay a standby fee on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins determined in a manner similar to the interest.

At December 31, 2014, the Company had no amounts drawn under the Revolving Credit Facility, had no restricted cash, and had issued letters of credit totaling \$57.5 million.

The terms of the Company's Revolving Credit Facility require the Company to maintain certain covenants defined in the agreement including a consolidated senior debt leverage ratio of no greater than 3.5 to 1.0, a consolidated total debt leverage ratio of no greater than 4.0 to 1.0 and an interest coverage ratio of no less than 2.5 to 1.0. As at December 31, 2014, the Company was in compliance with the financial ratios with the senior debt leverage ratio at 2.2 to 1.0, total debt leverage ratio at 2.2 to 1.0, and



the interest coverage ratio at 6.7 to 1.0. If the Company fails to comply with the financial covenants, the lenders may declare an event of default. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility.

The Notes and the Revolving Credit Facility contain non-financial covenants that restrict, subject to certain thresholds, some of the Company’s activities, including the Company’s ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Notes and the Revolving Credit Facility also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of principal, interest or fees when due, breach of covenants, change in control and material inaccuracy of representations and warranties, subject to specified grace periods. As of December 31, 2014, the Company was in compliance with all of its covenants under the Notes and the Revolving Credit Facility.

**Contingencies**

The Company is currently undergoing various income tax related and excise tax audits. While the final outcome of such audits cannot be predicted with certainty, the Company believes that the resolution of these audits will not have a material impact on the Company’s consolidated financial position or results of operations. As a part of the acquisition of the Company by the wholly-owned subsidiary of R/C Guitar Cooperatief U.A., a Dutch Co-operative owned by investment funds affiliated with Riverstone Holdings LLC, from Hunting PLC (“Hunting”) on December 12, 2008, Hunting has indemnified the Company for the pre-closing period impact of these audits.

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

The Company is involved in various legal actions which have occurred in the ordinary course of business. The Company is of the opinion that losses, if any, arising from such legal actions would not have a material impact on the Company’s consolidated financial position or results of operations.

**Contractual obligations**

The following table presents, at December 31, 2014, the Company’s obligations and commitments to make future payments under contracts and contingent commitments:

(in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt <sup>(1)</sup> .....	\$1,188,055	\$ -	\$ -	\$ -	\$1,188,055
Interest payments on long-term debt <sup>(1)</sup> .....	596,647	76,694	153,388	153,388	213,177
Operating lease and other commitments <sup>(2)</sup> .....	301,274	70,097	119,333	87,523	24,321
Total contractual obligations .....	\$2,085,976	\$ 146,791	\$ 272,721	\$ 240,911	\$1,425,553

(1) The exchange rate used to translate the U.S. dollar obligations on the Company’s long-term debt and interest payments is the rate as of December 31, 2014 of U.S.\$0.8620 to \$1.00.

(2) Operating lease and other commitments relate to an office lease for the Company’s Calgary head office, rail tank cars, vehicles, field buildings, various equipment leases and terminal services arrangements.

As at December 31, 2014, the Company has identified and approved a capital expenditure budget, excluding acquisitions, of \$409.1 million that the Company expects to undertake over the next 12 to 24 months. In addition, the Company had accrued liabilities for obligations with respect to the Company’s defined benefit plans of \$5.7 million and provisions associated with site restoration on the retirement of assets and environmental costs of \$136.3 million but the timing of such payments is uncertain due to the estimates used to calculate these amounts and the long-term nature of these balances. The Company also has commitments relating to its risk management contracts which are discussed further in “Quantitative and Qualitative Disclosures about Market Risks”.



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## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital expenses that are material to investors.

## RELATED PARTY TRANSACTIONS

On August 11, 2011, the Company formed a partnership (the "Plato Partnership") to jointly construct and own a pipeline and emulsion treating, water disposal and oilfield waste management facilities in the Plato area of Saskatchewan. The Plato Partnership commenced operations in 2012. The Company's interest in the Plato Partnership is 50%. A member of the Company's Board is also a director of the other party with the 50% interest in the Plato Partnership. At December 31, 2014 and 2013, the Company's proportionate share of property, plant and equipment was \$10.2 million and \$10.5 million, respectively. The impact of the Company's share of the other financial position and results of the Plato Partnership is not material to the Company's consolidated financial statements.

The related party transactions noted above have been measured at agreed upon market based terms.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2014, there were 124.5 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's equity incentive award plan, there were an aggregate of 1.3 million restricted share units, performance share units and deferred share units outstanding and 2.5 million stock options outstanding as at December 31, 2014.

At December 31, 2014, awards available to grant under the Company's amended equity incentive plan were approximately 8.6 million.

As at February 27, 2015, 124.9 million common shares, 1.3 million restricted share units, performance share units and deferred share units and 2.5 million stock options were outstanding.

## DIVIDENDS

The Company is currently paying quarterly dividends to holders of common shares. The payment of dividends is not guaranteed, and the amount and timing of any dividends payable by Gibson will be at the discretion of the Board and will be established on the basis of Gibson's earnings, financial requirements for operations, the satisfaction of a solvency calculation and the terms of the Company's debt agreements. In addition, in connection with Company's dividend policy, after each fiscal year end the Board will formally review the annual dividend amount.

The Board has approved a DRIP and a SDP that provide eligible holders of common shares with the opportunity to reinvest their cash dividends, on each dividend payment date, in additional common shares to be issued from treasury of Gibson. For the dividend paid on January 16, 2015, holders of approximately 22.0% of the common shares participated in the DRIP and SDP.



**DISTRIBUTABLE CASH FLOW**

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of fluctuations in product inventories or other temporary changes. Upgrade and replacement capital expenditures are deducted from distributable cash flow as they are ongoing recurring expenditures.

The following is a reconciliation of distributable cash flow to its most closely related IFRS measure, cash flow from operating activities.

	Year ended December 31	
	2014	2013
	(in thousands)	
Cash flow from operating activities .....	\$ 336,228	\$ 331,631
Adjustments:		
Changes in non-cash working capital .....	105,291	90,043
Upgrade and replacement capital .....	(59,035)	(69,513)
Cash interest expense, including capitalized interest .....	(68,708)	(46,909)
Current income tax .....	(48,549)	(52,074)
Distributable cash flow .....	<u>\$ 265,227</u>	<u>\$ 253,178</u>
Dividends declared to shareholders .....	<u>\$ 148,573</u>	<u>\$ 133,682</u>

Dividends declared in the twelve months ended December 31, 2014 were \$148.6 million, of which \$112.5 million was paid in cash and the balance was settled with the issuance of common shares under the Company’s DRIP and SDP. In the twelve months ended December 31, 2014, dividends declared represented 56% of the distributable cash flow generated, or distributable cash flow was 1.8 times dividends declared.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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



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

The fair value of futures contracts is based on quoted market prices obtained from the CME. The fair value of swaps and option contracts is estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that would have been realized if the contracts had been closed out at the period end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. No such positions existed as at December 31, 2014 and 2013. All derivative positions offset existing or anticipated physical exposures. Price-risk sensitivities were calculated by assuming 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by \$5.6 million and \$3.1 million as of December 31, 2014 and 2013, respectively. A 15% unfavorable change would decrease the Company's net income by \$5.6 million and \$3.0 million as of December 31, 2014 and 2013, respectively. However, these changes may be offset by the use of one or more risk management strategies.

*Interest rate risks.* Following the Notes offering, the Company's long-term debt accrues interest at fixed interest rates and accordingly, changes in market interest rates do not expose the Company to future interest cash outflow variability.

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either U.S. LIBOR, U.S. Base Rate, Canadian Prime Rate or Canadian Bankers' Acceptance rate, plus an applicable margin based on the Company's total leverage ratio. As at December 31, 2014, the Company had no amounts drawn under the Revolving Credit Facility and accordingly, was not exposed to the interest rate cash flow risk.

*Currency exchange risks.* The Company's monetary assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and options and would decrease the Company's net income by \$3.2 million and \$5.3 million as at December 31, 2014 and 2013, respectively. A 5% favorable change would increase the Company's net income by \$3.2 million and \$5.1 million as at December 31, 2014 and 2013, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

Additionally, currency exposure occurs on a portion of the principal of the Company's long-term debt and the related interest payments, as they are denominated in U.S. dollars. As at December 31, 2014, the Company had outstanding U.S. dollar denominated debt of U.S.\$550.0 million.

As at December 31, 2014, the Company had U.S. dollar forward contracts to buy U.S. dollars at a weighted average rate of \$1.0242 for U.S.\$1.00 for a notional amount of U.S.\$250.0 million expiring on September 15, 2017 and the Company also sold U.S. dollar call options at a strike price of \$1.295 for U.S.\$1.00 on a notional amount of U.S.\$250.0 million expiring on September 15, 2017. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and the related foreign currency contracts and would decrease the Company's net income by \$10.7 million and \$11.6 million as at December 31, 2014 and 2013, respectively. A corresponding favorable change would increase the Company's net income by \$10.7 million and \$11.6 million as at December 31, 2014 and 2013, respectively.

With respect to the related interest payments on the U.S. dollar denominated long-term debt, to date the Company has not entered into any foreign currency hedges as the Company believes that it will generate enough U.S. dollar cash inflows to pay these interest payments when due. Based on the interest rate in effect at December 31, 2014, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of December 31, 2014 would increase the Company's annual interest expense by \$2.2 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of December 31, 2014 would decrease the Company's annual interest expense by \$2.2 million.



## ACCOUNTING POLICIES

### Critical accounting policies and estimates

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

*Fair value of assets and liabilities acquired in a business combination.* In conjunction with each business combination, the Company must allocate the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items as customer relationships, brands, contracts, and industry expertise involves professional judgment and is ultimately based on acquisition models and management's assessment of the value of the assets acquired and, to the extent available, third party assessments. Uncertainties associated with these estimates include changes in production volumes, changes in commodity prices, fluctuations in capacity or product slates, economic obsolescence factors in the area and potential future sources of cash flow. During the measurement period, the allocation of purchase price of the acquired entity may be adjusted when the initial accounting for business combination is recorded based on provisional amounts. Although the resolution of these uncertainties has not historically had a material impact on the Company's results of operations or financial condition, the actual amounts may vary significantly from estimated amounts. Any excess of the cost of acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

*Recoverability of asset carrying values.* The Company carries out impairment reviews in respect of goodwill at least annually or if indicators of impairment exist. The Company also assesses during each reporting period whether there have been any events or changes in circumstances that indicate that property, plant and equipment, inventories and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable. Such indicators include changes in the Company's business plans, changes in activity levels, and an increase in the discount rate, the intention of "holding" versus "selling" and evidence of physical damage. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Where impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and value in use. Impairments are recognized immediately in the consolidated statement of operations.

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. However, the determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as the outlook for global or regional market supply-and-demand conditions, future commodity prices, the effects of inflation on operating expenses and discount rates.

In the year ended December 31, 2014 and 2013, the Company did not have any impairment charge with respect to property, plant and equipment, goodwill or intangible assets.

*Income tax.* Income tax expense represents the sum of the income tax currently payable and deferred income tax. Interest and penalties relating to income tax are also included in income tax expense. Deferred income tax is provided for using the liability method of accounting. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities. These differences are then measured using enacted or substantially enacted income tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income in the period that the change occurs.

The computation of the Company's income tax expense involves the interpretation of applicable tax laws and regulations in many jurisdictions. The resolution of tax positions taken by the Company can take significant time to complete and in some cases it is difficult to predict the ultimate outcome. In addition, the Company has carry-forward tax losses in certain taxing jurisdictions that are available to offset against future taxable profit. However, deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. Management judgement is exercised in assessing whether this is the case. To the extent that actual outcomes differ from management's estimates, income tax charges or credits may arise in future periods.



*Financial instruments.* In situations where the Company is required to mark financial instruments to market, the estimates of gains or losses at a particular period-end do not reflect the end results of particular transactions, and will most likely not reflect the actual gain or loss at the conclusion of the underlying transactions. The Company reflects the fair value estimates for financial instruments based on valuation information from third parties. The calculation of the fair value of certain of these financial instruments is based on proprietary models and assumptions of third parties because such instruments are not quoted on an active market. Additionally, estimates of fair value for such financial instruments may vary among different models due to a difference in assumptions applied, such as the estimate of prevailing market prices, volatility, correlations and other factors, and may not be reflective of the price at which they can be settled due to the lack of a liquid market. Although the resolution of these uncertainties has not historically had a material impact on the Company's results of operations or financial condition, the actual amounts may vary significantly from estimated amounts.

*Provisions and accrued liabilities.* The Company uses estimates to record liabilities for obligations associated with site restoration on the retirement of assets and environmental costs, taxes, potential legal claims, and other accruals and liabilities.

Liabilities for site restoration on the retirement of assets are recognized when the Company has an obligation to restore the site, and when a reliable estimate of that liability can be made. An obligation may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The present value is determined by discounting the expenditures expected to be required to settle the obligation using a risk-free discount rate. Estimated future expenditure is based on all known facts at the time and current expected plans for decommissioning. Among the many uncertainties that may impact the estimates are changes in laws and regulations, public expectations, prices and changes in technology. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recorded. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment. As a result of a change in the risk-free rate and upward revision to the initial costs estimates, the Company recorded an increase to the provision of \$40.5 million during the year ended December 31, 2014, with a corresponding increase to property, plant and equipment.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the completion of a feasibility study or a commitment to a formal plan of action. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. Estimated future expenditure is based on all known facts at the time and an assessment of the ultimate outcome. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of remediation technology.

Other provisions and accrued liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. Since the actual cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances. A change in estimate of a recognized provision or accrued liability would result in a charge or credit to net income in the period in which the change occurs.

#### **Amended standards adopted by the Company**

The Company adopted the following amendments to IFRS that were effective for the first time for the financial year beginning on or after January 1, 2014.

- IAS 32, Financial Instruments, Presentation ("IAS 32") has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. The Company adopted these amendments on January 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRIC 21, Accounting for Levies imposed by governments ("IFRIC 21") was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Company adopted IFRIC 21 on January 1, 2014 which did not result in any material impact on the consolidated financial statements.



- IFRS 2, Share based payments (“IFRS 2”) has been amended to clarify the definition of vesting conditions. The amendment clarifies that the vesting condition is either a service or performance condition and separately defines these two conditions. The Company adopted these amendments on July 1, 2014 which did not result in any impact on the consolidated financial statements.
- IFRS 3, Business combinations (“IFRS 3”) has been amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. The Company adopted these amendments on July 1, 2014 which did not result in any impact on the consolidated financial statements.

#### **New standards and interpretations issued but not yet adopted**

- The annual improvements process addresses issues in the 2012-2014 reporting cycles including changes to IFRS 5, Non-current assets held for sale and discontinued operations, IFRS 7, Financial instruments: Disclosures, IAS 19, Employee benefits, and IAS 34, Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- The annual improvements process addresses issues in the 2010-2012 and 2011-2013 reporting cycles including changes to IFRS 13, Fair value measurements, IFRS 8, Operating segments and IAS 24, Related party transactions. These improvements are effective for annual periods beginning on or after July 1, 2014. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- IAS 19, Employee benefits, has been amended to clarify the application of requirements to plans that require employees or third parties to contribute toward the cost of the benefits. The amendment to IAS 19 is effective for annual periods beginning on or after July 1, 2014. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- IAS 16, Property Plant and Equipment (“IAS 16”), and IAS 38, Intangible Assets (“IAS 38”), has been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 10, Consolidated financial statements (“IFRS 10”), and IAS 28, Investments in associates and joint ventures (“IAS 28”), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 11, Accounting for acquisitions of interests in joint operations (“IFRS 11”), has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendment to IFRS 11 is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 15, Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- The International Accounting Standards Board (“IASB”) completed the final element of its comprehensive publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for



classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IAS 1, Presentation of financial statements ("IAS 1"), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.

## DISCLOSURE CONTROLS & PROCEDURES

As part of the requirements mandated by the Canadian securities regulatory authorities under National Instrument 52-109-Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the design and operation of the Company's disclosure controls and procedures ("DC&P"), as such term is defined in NI 52-109, as at December 31, 2014. The CEO and CFO are also responsible for establishing and maintaining internal controls over financial reporting, ("ICFR"), as such term is defined in NI 52-109. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and compliance with IFRS. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operational effectiveness of such controls as at December 31, 2014.

In accordance with the provisions of NI 52-109, management, including the CEO and CFO, have limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies and procedures of Cal-Gas and Stittco. Gibson acquired Cal-Gas and Stittco on August 1, 2014, and April 1, 2014, respectively. Cal-Gas and Stittco's contribution to the Company's audited consolidated financial statements for the year ended December 31, 2014 was approximately \$61.8 million of consolidated net revenues and approximately \$3.1 million of consolidated income before tax. Additionally, as at December 31, 2014, Cal-Gas and Stittco's current assets and current liabilities were approximately \$43.8 million and \$13.3 million, respectively, and its non-current assets and non-current liabilities were approximately \$112.6 million and \$13.6 million, respectively. The scope limitation is primarily due to the time required for the Company's management to assess Cal-Gas and Stittco's DC&P and ICFR in a manner consistent with the Company's other operations.

Based on the evaluation of the design and operating effectiveness of the Company's DC&P and ICFR, the CEO and the CFO concluded that Gibson's DC&P and ICFR were effective as at December 31, 2014. There have been no changes in ICFR that occurred during the period beginning January 1, 2014 and ended on December 31, 2014 that has materially affected or is reasonably likely to materially affect Gibson's ICFR.



## FORWARD-LOOKING STATEMENTS

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

- the addition of assets to the business and the increase in the number of services to be offered by the Company;
- the Company's investment in new equipment, technology, facilities and personnel;
- the Company's growth strategy to expand in existing and new markets;
- the availability of sufficient liquidity for planned growth;
- new technology and drilling methodology being deployed towards conventional and unconventional production within the Company's operating areas;
- uncertainty and volatility relating to crude prices and price differentials between crude oil streams and blending agents;
- increased crude oil production and exploration activity on shore in North America, including from the Canadian oil sands;
- the expansion of midstream infrastructure in North America to handle increased production and expansion of capacity in the U.S. refining complex to handle heavier crude oil from the WCSB;
- the effect of competition in regions of North America and its impact on downward pricing pressure and regional crude oil price differentials among crude oil grades and locations;
- the effect of market volatility on the Company's marketing revenues and activities;
- the Company's ability to pay down and retire indebtedness;
- the Company's plans for additional strategic acquisitions, capital expenditures or other similar transaction, including the costs thereof;
- the Company's planned hedging activities;
- the Company's projections of commodity purchase and sales activities;
- the Company's projections of currency and interest rate fluctuations;
- the Company's projections of a growing dividend; and
- the Company's dividend policy and continuing availability of the Company's DRIP and SDP.

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

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

In addition, this MD&A may contain forward-looking statements and forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward-looking statements except as required by securities law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Forward-Looking Statements" and "Risk Factors" included in the Company's Annual Information Form dated March 3, 2015 as filed on SEDAR at [www.sedar.com](http://www.sedar.com) and available on the Gibson website at [www.gibsons.com](http://www.gibsons.com).



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## NON-GAAP FINANCIAL MEASURES

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

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



# **Gibson Energy Inc.**

Consolidated Financial Statements  
For the year ended December 31, 2014  
(in thousands of Canadian dollars)



March 3, 2015

## **Independent Auditor's Report**

### **To the Shareholders of Gibson Energy Inc.**

We have audited the accompanying consolidated financial statements of Gibson Energy Inc., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gibson Energy Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

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



# Gibson Energy Inc.

## Consolidated Balance Sheet

(tabular amounts in thousands of Canadian dollars)

	December 31,	
	2014	2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 131,911	\$ 97,182
Trade and other receivables (note 6) .....	641,283	592,850
Inventories (note 7) .....	154,937	156,419
Income taxes receivable .....	12,100	7,534
Prepaid expenses and other assets .....	24,366	25,170
Net investment in finance leases (note 8).....	908	765
Total current assets.....	<u>965,505</u>	<u>879,920</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 9).....	1,494,569	1,119,856
Long-term prepaid expenses and other assets (note 10).....	39,778	19,640
Net investment in finance leases (note 8).....	94,387	93,236
Deferred income tax assets (note 11) .....	3,532	8,187
Intangible assets (note 12).....	191,537	202,395
Goodwill (note 13) .....	783,721	726,148
Total non-current assets .....	<u>2,607,524</u>	<u>2,169,462</u>
<b>Total assets</b> .....	<u>\$ 3,573,029</u>	<u>\$ 3,049,382</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued charges (note 15).....	581,463	565,179
Dividends payable (note 18) .....	37,346	33,605
Deferred revenue .....	19,042	2,847
Income taxes payable .....	122	20,535
Total current liabilities .....	<u>637,973</u>	<u>622,166</u>
<b>Non-current liabilities</b>		
Long-term debt (note 14) .....	1,165,368	757,566
Provisions (note 16) .....	136,347	91,424
Other long-term liabilities (note 17).....	14,810	15,487
Deferred income tax liabilities (note 11).....	191,351	194,105
Total non-current liabilities .....	<u>1,507,876</u>	<u>1,058,582</u>
Total liabilities .....	<u>2,145,849</u>	<u>1,680,748</u>
<b>Equity</b>		
Share capital (note 18) .....	1,634,001	1,585,145
Contributed surplus .....	23,841	16,130
Accumulated other comprehensive income.....	93,011	33,879
Deficit.....	(323,673)	(266,520)
Total equity .....	<u>1,427,180</u>	<u>1,368,634</u>
<b>Total liabilities and equity</b> .....	<u>\$ 3,573,029</u>	<u>\$ 3,049,382</u>

### Commitments and contingencies (note 19)

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

*(signed)* "James M. Estey"

James M. Estey  
Director

*(signed)* "Marshall L. McRae"

Marshall L. McRae  
Director

# Gibson Energy Inc.

## Consolidated Statement of Operations

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

	Year ended	
	December 31,	
	2014	2013
Revenue (note 20) .....	\$ 8,573,529	\$ 6,940,669
Cost of sales (notes 7, 21, 22 and 28).....	8,299,403	6,666,257
Gross profit .....	274,126	274,412
General and administrative expenses (notes 21 and 22).....	56,245	47,372
Other operating income (note 23) .....	(11,845)	(6,576)
<b>Income from operating activities</b> .....	<b>229,726</b>	<b>233,616</b>
Interest expense .....	67,598	53,458
Gain on financial instruments relating to interest expense (note 28) .....	-	(18,252)
Interest income .....	(832)	(471)
Foreign exchange loss on long-term debt (note 14) .....	35,431	19,951
Debt extinguishment costs (note 14) .....	-	38,209
<b>Income before income taxes</b> .....	<b>127,529</b>	<b>140,721</b>
Income tax provision (note 11) .....	35,588	36,905
<b>Net income</b> .....	<b>\$ 91,941</b>	<b>\$ 103,816</b>
<b>Earnings per share (note 24)</b>		
Basic .....	\$ 0.74	\$ 0.86
Diluted.....	\$ 0.73	\$ 0.84

See accompanying notes to the consolidated financial statements

# Gibson Energy Inc.

## Consolidated Statement of Comprehensive Income

(tabular amounts in thousands of Canadian dollars)

	Year ended	
	December 31,	
	2014	2013
<b>Net income</b> .....	\$ 91,941	\$ 103,816
<b>Other comprehensive income (loss)</b> .....		
<i>Items that may be reclassified subsequently to statement of operations</i>		
Exchange differences on translating foreign operations.....	59,132	43,045
<i>Items that will not be reclassified to statement of operations</i>		
Remeasurements of post-employment benefit obligation, net of tax .....	(521)	1,144
<b>Other comprehensive income, net of tax</b> .....	58,611	44,189
<b>Comprehensive income</b> .....	\$ 150,552	\$ 148,005

See accompanying notes to the consolidated financial statements

# Gibson Energy Inc.

## Consolidated Statement of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 18)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Equity
<b>Balance – January 1, 2013</b> .....	\$ 1,543,149	\$ 11,297	\$ (9,166)	\$ (237,798)	\$ 1,307,482
Net income .....	-	-	-	103,816	103,816
Other comprehensive income, net of tax .....	-	-	43,045	1,144	44,189
Comprehensive income .....	-	-	43,045	104,960	148,005
Employee share options:					
Stock based compensation .....	-	8,271	-	-	8,271
Proceeds from exercise of stock options ...	1,169	-	-	-	1,169
Reclassification of contributed surplus on exercise of stock option and other stock awards .....	3,438	(3,438)	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	37,389	-	-	-	37,389
Dividends on common shares (\$1.10 per common share) .....	-	-	-	(133,682)	(133,682)
<b>Balance – December 31, 2013</b> .....	<u>\$ 1,585,145</u>	<u>\$ 16,130</u>	<u>\$ 33,879</u>	<u>\$ (266,520)</u>	<u>\$ 1,368,634</u>
Net income .....	-	-	-	91,941	91,941
Other comprehensive income, net of tax .....	-	-	59,132	(521)	58,611
Comprehensive income .....	-	-	59,132	91,420	150,552
Employee share options:					
Stock based compensation .....	-	13,977	-	-	13,977
Proceeds from exercise of stock options ....	5,942	-	-	-	5,942
Reclassification of contributed surplus on exercise of stock option and other stock awards .....	6,266	(6,266)	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	36,648	-	-	-	36,648
Dividends on common shares (\$1.20 per common share) .....	-	-	-	(148,573)	(148,573)
<b>Balance – December 31, 2014</b> .....	<u>\$ 1,634,001</u>	<u>\$ 23,841</u>	<u>\$ 93,011</u>	<u>\$ (323,673)</u>	<u>\$ 1,427,180</u>

See accompanying notes to the consolidated financial statements

# Gibson Energy Inc.

## Consolidated Statement of Cash Flows

(tabular amounts in thousands of Canadian dollars)

	Year ended	
	December 31,	
	2014	2013
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Income from operating activities .....	\$ 229,726	\$ 233,616
Items not affecting cash		
Depreciation of property, plant and equipment (note 21).....	154,934	133,854
Amortization of intangible assets (note 21).....	54,991	50,203
Stock based compensation (note 22).....	13,977	8,271
Gain on sale of property, plant and equipment (note 23).....	(2,717)	(1,029)
Other.....	(7,509)	(3,863)
Net (gain) loss on fair value movement of financial instruments (note 28).....	(1,883)	622
Changes in items of working capital		
Trade and other receivables.....	4,819	(108,618)
Inventories.....	10,252	(3,700)
Other current assets.....	3,127	(11,705)
Trade payables and accrued charges.....	(63,264)	68,481
Deferred revenue.....	15,764	1,330
Income taxes.....	(75,989)	(35,831)
Net cash provided by operating activities .....	<u>336,228</u>	<u>331,631</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment.....	(354,682)	(227,019)
Purchase of intangible assets.....	(19,123)	(8,495)
Acquisitions, net of cash acquired (note 5).....	(128,440)	-
Proceeds on sale of assets.....	7,230	3,264
Net cash used in investing activities.....	<u>(495,015)</u>	<u>(232,250)</u>
<b>Financing activities</b>		
Payment of shareholder dividends.....	(144,832)	(131,309)
Proceeds from dividend reinvestment plans (note 18).....	36,648	37,389
Interest paid.....	(62,058)	(19,803)
Interest received.....	850	466
Proceeds from exercise of stock options.....	5,942	1,169
Proceeds from long-term debt, net of debt discount and premium (note 14).....	358,595	764,173
Payment of debt issue and financing costs.....	(7,072)	(16,189)
Repayment of long-term debt (note 14).....	-	(678,098)
Repayment of credit facilities.....	(463,494)	(156,385)
Proceeds from credit facilities.....	463,601	124,000
Repayment of finance lease liabilities.....	(563)	(808)
Net proceeds on settlement of derivative financial instruments not affecting operating activities (note 28).....	582	8,723
Net cash provided by (used in) financing activities .....	<u>188,199</u>	<u>(66,672)</u>
<b>Effect of exchange rate on cash and cash equivalents.....</b>	5,317	3,447
<b>Net increase in cash and cash equivalents .....</b>	34,729	36,156
<b>Cash and cash equivalents – beginning of year .....</b>	97,182	61,026
<b>Cash and cash equivalents – end of year.....</b>	<u>\$ 131,911</u>	<u>\$ 97,182</u>

See accompanying notes to the consolidated financial statements

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 1 General Information

Gibson Energy Inc. (“Gibson” or the “Company”) was incorporated pursuant to the Business Corporations Act (Alberta). The Company’s common shares are traded on the Toronto Stock Exchange under the symbol “GEI”.

Gibson is engaged in the movement, storage, blending, processing and marketing and distribution of crude oil, condensate, natural gas liquids, water, oilfield waste and refined products. The Company also provides emulsion treating, water disposal, oil-field waste management services and propane distribution. The Company is incorporated and domiciled in Canada. The address of the Company’s principal place of business is 1700, 440 Second Avenue S.W., Calgary, Alberta, Canada.

### 2 Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as set out in the Handbook of the Canadian Institute of Chartered Accountants and as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved for issuance by the Company’s board of directors (“Board”) on March 3, 2015.

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

### 3 Summary of significant accounting policies

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

#### **Basis of measurement**

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

#### **Basis of consolidation**

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

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

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint operations and accordingly, the Company has recognized its proportionate share of revenues, expenses, assets and liabilities relating to these joint operations.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Foreign currency translation

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

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

### Business combinations and goodwill

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

Any contingent consideration to be transferred by the Company is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

### Intangible assets

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

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

Brands .....	2 – 10 years
Customer relationships.....	1 – 12 years
Long-term customer contracts.....	6 – 10 years
Non-compete agreements.....	2 – 10 years
Technology .....	3 – 5 years
Software .....	3 – 7 years
License and permits .....	3 years

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

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

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

### Property, plant and equipment

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

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

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

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

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

Buildings .....	10 – 20 years
Equipment .....	3 – 20 years
Rolling stock .....	5 – 23 years
Pipelines .....	8 – 20 years
Tanks .....	20 – 33 years
Plant .....	7 – 25 years
Disposal wells .....	15 – 25 years

The expected useful lives, method of depreciation and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

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

### Impairments

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

The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs of disposal and value in use. Value in use is usually determined on the basis



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

of discounted estimated future net cash flows. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. In the absence of such transactions, an appropriate valuation model is used.

An impairment loss in respect of goodwill is not reversible in the future. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

### **Non-derivative financial instruments – recognition and measurement**

#### ***Financial assets***

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

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

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

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

#### ***Financial liabilities***

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

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

### **Derivative financial instruments**

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

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### **Inventories**

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

### **Leases - lessee**

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Assets acquired under finance leases are recorded in the balance sheet as property, plant and equipment at the lower of their fair value and the present value of the minimum lease payments and depreciated over the shorter of their estimated useful life or their lease terms. The corresponding rental obligations are included in other long-term liabilities as finance lease liabilities. Interest incurred on finance leases is charged to the statement of operations on an accrual basis.

All other leases are operating leases, and the rental of these is charged to the statement of operations as incurred over the lease term.

### **Leases - lessor**

Contractual arrangements that transfer substantially all the risks and benefits of ownership of property to the lessee are recorded as a net investment in a finance lease. The present value of minimum lease receivable under such arrangements are recorded as an investment in finance lease and the finance income is recognized in a manner that produces a consistent rate of return on the investment in the finance lease and is included in revenue.

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

### **Provisions and contingencies**

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

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

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

### ***Decommissioning***

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

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

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Environmental liabilities*

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

### **Employee benefits**

#### *Defined benefit pension plan and other post retirement benefits plan*

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

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

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

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

#### *Defined contribution pension plans*

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

#### *Share-based payments*

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

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

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

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

The fair value of RSUs, PSUs and DSUs are equal to the Company five days weighted average share price at the date of grant.

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

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Termination benefit*

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

### **Income taxes**

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

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

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

### **Revenue recognition**

Product revenues associated with the sales of crude oil, diluent, natural gas liquids, asphalt, natural gas, wellsite fluids and distillate owned by the Company are recognized when the risk of ownership passes to the customer and physical delivery occurs, the price is fixed and collection is reasonably assured. Sales terms are generally FOB shipping point, in which case the sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. All payments received before delivery are recorded as deferred revenue and are recognized as revenue when delivery occurs, assuming all other criteria are met. Freight costs billed to customers are recorded as a component of revenue. Revenues from buy/sell transactions whereby the Company acts as an agent are recorded on a net basis.

Revenue associated with the provision of services such as transportation, terminalling and environmental services are recognized when the services are provided, the price is fixed and collection is reasonably assured. Revenue from pipeline tariffs and fees are based on volumes and rates as the pipeline is being used. Long-term take-or-pay contracts, under which shippers are obligated to pay fixed amounts ratably over the contract period regardless of volumes shipped, may contain make-up rights. Make-up rights are earned by shippers when minimum volume commitments are not utilized during the period but under certain circumstances can be used to offset overages in future periods, subject to expiry periods. The Company recognizes revenues associated with make-up rights at the earlier of when the make-up volume is shipped, the make-up right expires or when it is determined that the likelihood that the shipper will utilize the make-up right is remote. Revenue from pipeline tariffs and fees are based on volumes and rates as the pipeline is being used. Revenue from equipment rentals and non-refundable propane tank fees are recorded in deferred revenue and are recognized in revenue on a straight line basis over the rental period, typically one year.

Excise taxes are reported gross within sales and other operating revenues and taxes other than income taxes, while other sales and value-added taxes are recorded net in operating expenses.

### **Cost of sales**

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

### **Interest**

Interest income and expense is recognized in the statement of operations using the effective interest method.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### **Borrowing costs**

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

### **Share capital**

Common and preferred shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

### **Per share amounts**

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

### **Dividends**

Dividends on common shares are recognized in the period in which the dividends are approved by the Board.

### **Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the President and Chief Executive Officer.

### **Critical accounting estimates and judgements**

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

### ***Critical accounting estimates and assumptions***

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

### ***Fair value of assets and liabilities acquired in a business combination***

In conjunction with each business combination, the Company must allocate the cost of the acquired entity to the assets and liabilities assumed based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items as customer relationships, brands and contracts involves professional judgment and is ultimately based on acquisition models and management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party assessments. Uncertainties associated with these estimates include changes in production volumes, changes in commodity prices, fluctuations in capacity or product slates, economic obsolescence factors in the area and potential future sources of cash flow. During the measurement period, the fair value of assets acquired and liabilities assumed may be adjusted when the initial accounting for business combination is recorded based on provisional amounts. Although the resolution of these uncertainties has not historically had a material impact on the Company's results of operations or financial condition, the actual amounts may vary significantly from estimated amounts. Any excess of the cost of acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Impairment assessment of non-financial assets*

The Company tests annually whether goodwill of an operating segment has suffered any impairment, in accordance with the Company's accounting policy. The recoverable amounts of the operating segments are determined based on fair value less costs of disposal calculations which requires the use of estimates. The Company also assesses at least annually whether there have been any events or changes in circumstances that indicate that property, plant and equipment and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable.

In the impairment analysis of the Company's assets, some of the key assumptions used in estimating future cash flows include revenue growth, future commodity prices, expected margin, expected sales volumes, cost structures and the outlook of market supply and demand conditions appropriate to the local circumstances and environment. These assumptions and estimates are uncertain and are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

### *Income taxes*

The Company is subject to income taxes in Canada and the United States of America. Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires management to make some assumptions as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in statement of operations in the period in which the change occurs.

### *Fair value of derivatives financial instruments*

The Company reflects the fair value of derivative financial instruments based on valuation information from third parties. The calculation of the fair value of certain of these instruments is based on proprietary models and assumptions of third parties because such instruments are not quoted on an active market. Additionally, estimates of fair value may vary among different models due to a difference in assumptions applied, such as the estimate of prevailing market prices, volatility, correlations and other factors, and may not be reflective of the price at which they can be settled due to the lack of a liquid market. As a result of changes in key assumptions, the actual amounts may vary significantly from estimated amounts.

### *Provisions*

Accruals for decommissioning and environmental remediation are recorded when it is considered probable and the costs can be reasonably estimated. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time remediation may require, the complexity of environmental regulations and the advancement of technology. Considering these factors, the Company has estimated the costs of remediation, which will be incurred in future years. The Company believes the provisions made for environmental matters are adequate, however it is reasonably possible that actual costs may differ from the estimated accrual, if the selected methods of remediation do not adequately reduce the contaminants and further remedial action is required. The Company uses third-party environmental evaluators, where possible, to obtain the estimates of decommissioning and environmental provision.

### ***Critical judgements in applying the Company's accounting policies***

#### *Identification of cash-generating unit ("CGU")*

For the purposes of impairment testing, assets are grouped at the lowest levels of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets, termed as a CGU. The allocation of assets into a CGU requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures and the way in which management monitors the operations.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Investment in finance leases*

In determining whether certain of the Company's long-term tank storage arrangements are, or contain, a lease, the Company must use judgement in assessing whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys the right to use the assets. For those arrangements considered to be a lease, further judgement is required to determine whether substantially all of the significant risks and rewards of ownership are transferred to the customer or remain with the Company, to appropriately account for the arrangement as a finance or operating lease. These judgements can be significant as to how the Company classifies amounts related to the arrangements as property, plant and equipment or net investment in finance lease on the balance sheet. The Company has determined, based on the terms and conditions of these arrangements, that the substantial risks and rewards to the ownership of certain storage tanks have been transferred to the customer, and accordingly, these storage tanks have been recognized as an investment in finance lease.

### *Current and deferred taxation*

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

### *Change in the terms of the credit agreement*

The Company incurs costs on the refinancing, replacement and re-pricing of its long-term debt and credit facilities. The treatment of such costs is dependent on the assessment of whether the refinancing, replacement or re-pricing was an extinguishment or a modification of the original loan. In the case of an extinguishment, the costs incurred are charged to statements of operations whereas in the case of a modification, the costs are capitalized as a part of the existing carrying amount of the loan and amortized to statement of operations over the term of the loan using effective interest method. When the terms and conditions of a refinancing, replacement and re-pricing are substantially different, it is generally considered an extinguishment. The assessment requires the exercise of significant judgement involving comparing qualitative and quantitative factors of the credit agreement before and after the refinancing, replacement or re-pricing.

## **4 Changes in accounting policies and disclosures**

### *New and amended standards adopted by the Company*

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

- IAS 32, Financial Instruments, Presentation ("IAS 32") has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. The Company adopted these amendments on January 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRIC 21, Accounting for Levies imposed by governments ("IFRIC 21") was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Company adopted IFRIC 21 on January 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRS 2, Share based payments has been amended to clarify the definition of vesting conditions. The amendment clarifies that the vesting condition is either a service or performance condition and separately defines these two

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

conditions. The Company adopted these amendments on July 1, 2014 which did not result in any material impact on the consolidated financial statements.

- IFRS 3, Business combinations has been amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. The Company adopted these amendments on July 1, 2014 which did not result in any impact on the consolidated financial statements.

### *New standards and interpretations issued but not yet adopted*

The following provides information requiring new standards and interpretations that have been issued but not yet adopted by the Company:

- The annual improvements process addresses issues in the 2012-2014 reporting cycles including changes to IFRS 5, Non-current assets held for sale and discontinued operations, IFRS 7, Financial instruments: Disclosures, IAS 19, Employee benefits, and IAS 34, Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- The annual improvements process addresses issues in the 2010-2012 and 2011-2013 reporting cycles including changes to IFRS 13, Fair value measurements, IFRS 8, Operating segments and IAS 24, Related party transactions. These improvements are effective for annual periods beginning on or after July 1, 2014. The impact of adopting these improvements will not have a material impact on the consolidated financial statements.
- IAS 1, Presentation of financial statements (“IAS 1”), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- IAS 16, Property Plant and Equipment (“IAS 16”), and IAS 38, Intangible Assets (“IAS 38”), has been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IAS 19, Employee benefits (“IAS 19”), has been amended to clarify the application of requirements to plans that require employees or third parties to contribute toward the cost of the benefits. The amendment to IAS 19 is effective for annual periods beginning on or after July 1, 2014. The impact of adopting this amendment will not have a material impact on the consolidated financial statements.
- The IASB completed the final element of its comprehensive publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- IFRS 10, Consolidated financial statements (“IFRS 10”), and IAS 28, Investments in associates and joint ventures (“IAS 28”), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain



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## Notes to Consolidated Financial Statements

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

is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.

- IFRS 11, Accounting for acquisitions of interests in joint operations (“IFRS 11”), has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendment to IFRS 11 is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 15, Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

### 5 Business combinations

#### *Cal-Gas Inc. (“Cal-Gas”)*

On August 1, 2014, the Company acquired all of the issued and outstanding common shares of Cal-Gas for total cash consideration of \$96.4 million, including final closing adjustments. Cal-Gas is a provider of propane and related equipment, service and delivery to commercial, industrial and residential customers in Western Canada and Northwestern Ontario.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

	<u>Fair Value</u>
Trade and other receivables .....	\$ 11,314
Inventories.....	1,457
Prepaid and other assets .....	331
Property, plant and equipment .....	64,401
Goodwill <sup>(1)</sup> .....	29,152
Intangible assets <sup>(2)</sup> .....	7,534
Other long-term assets .....	105
Trade payables and accrued charges .....	(10,957)
Deferred revenue.....	(442)
Provisions.....	(90)
Deferred income tax liabilities .....	(6,420)
Net assets acquired.....	<u>\$ 96,385</u>

(1) *The goodwill arising on the acquisition is not deductible for tax purposes.*

(2) *Consists of customer relationships of \$5.1 million and non-compete agreements of \$2.4 million.*

Acquisition-related costs of \$0.3 million have been charged to general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2014.

The goodwill arising from the acquisition is attributable to the expected synergies with the Company’s existing propane operations within the Propane and NGL Marketing and Distribution segment. The goodwill for this acquisition is allocated to the Propane and NGL Marketing and Distribution segment.

The fair value of trade receivables is \$11.3 million, which approximates its gross contractual amount.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Stittco Energy Limited (“Stittco”)*

On April 1, 2014, the Company acquired all of the issued and outstanding common shares of Stittco for total cash consideration of \$32.1 million including final closing adjustments. Stittco is a provider of propane and related equipment, service and delivery to commercial, industrial and residential customers in northern Manitoba and the Northwest Territories.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

	<b>Fair Value</b>
Trade and other receivables .....	\$ 12,818
Inventories.....	4,922
Prepaid and other assets .....	253
Property, plant and equipment .....	15,653
Goodwill <sup>(1)</sup> .....	4,837
Intangible assets <sup>(2)</sup> .....	5,660
Trade payables and accrued charges .....	(4,068)
Income taxes payable .....	(1,270)
Other liabilities.....	(2,007)
Provisions.....	(734)
Deferred income tax liabilities .....	(4,009)
Net assets acquired.....	<u>\$ 32,055</u>

(1) *The goodwill arising on the acquisition is not deductible for tax purposes.*

(2) *Consists of customer relationships of \$5.4 million, and non-compete agreements of \$0.3 million.*

Acquisition-related costs of \$0.2 million have been charged to general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2014.

The goodwill arising from the acquisition is attributable to the expected synergies with the Company’s existing propane operations within the Propane and NGL Marketing and Distribution segment. The goodwill for this acquisition is allocated to the Propane and NGL Marketing and Distribution segment.

The fair value of trade receivables is \$12.8 million, which approximates its gross contractual amount.

### **Additional Information**

If the Cal-Gas and Stittco acquisitions had occurred on January 1, 2014, the Company estimates that it would have reported combined revenue of \$8,671.7 million and net income before income taxes of \$129.2 million for the year ended December 31, 2014. From the date of the acquisitions to December 31, 2014, the acquisitions contributed revenue of \$61.8 million and income before tax of \$3.1 million.

## **6 Trade and other receivables**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Trade receivables .....	\$ 599,546	\$ 583,068
Allowance for doubtful accounts .....	(4,678)	(4,092)
Trade receivables - net .....	594,868	578,976
Risk management assets (note 28) .....	18,702	1,120
Deposits held as collateral.....	898	1,145
Broker accounts receivable .....	4,554	1,326
Indirect taxes receivable.....	15,377	5,967
Other .....	6,884	4,316
	<u>\$ 641,283</u>	<u>\$ 592,850</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Allowance for doubtful accounts

	Year ended December 31,	
	2014	2013
Opening balance.....	\$ 4,092	\$ 4,603
Additional allowances.....	1,708	1,291
Receivables written off as uncollectible.....	(1,191)	(1,866)
Recoveries.....	(73)	(28)
Effect of changes in foreign exchange rates.....	142	92
Closing balance .....	<u>\$ 4,678</u>	<u>\$ 4,092</u>

### 7 Inventories

	December 31,	
	2014	2013
Crude oil.....	\$ 68,883	\$ 77,610
Diluent .....	2,889	3,561
Asphalt .....	15,922	14,638
Natural gas liquids .....	41,230	34,749
Wellsite fluids and distillate.....	11,727	13,003
Spare parts and other.....	14,286	12,858
	<u>\$ 154,937</u>	<u>\$ 156,419</u>

The cost of the inventory sold included in cost of sales was \$7,149.1 million and \$5,631.0 million for the year ended December 31, 2014 and 2013, respectively.

### 8 Net investment in finance leases

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

	December 31,	
	2014	2013
Total minimum lease payments receivable.....	\$ 353,392	\$ 363,742
Residual value.....	35,858	35,182
Unearned income .....	(293,955)	(304,923)
	95,295	94,001
Less: current portion .....	908	765
Net investment in finance lease : non-current portion.....	<u>\$ 94,387</u>	<u>\$ 93,236</u>

The minimum lease receivables are expected to be as follows:

2015 .....	\$ 23,548
2016 .....	23,548
2017 .....	23,548
2018 .....	23,548
2019 .....	23,548
2020 and later.....	235,652

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 9 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
<b>Cost:</b>							
At January 1, 2014 .....	\$ 113,292	\$ 128,360	\$ 266,947	\$ 400,671	\$ 524,655	\$ 86,464	\$ 1,520,389
Additions .....	25,535	3,971	9,155	38,438	50,454	263,717	391,270
Disposals .....	(22)	-	(798)	(11,670)	(2,050)	-	(14,540)
Acquisitions through business combinations (note 5) .....	13,150	-	53,879	8,016	5,009	-	80,054
Transfer to net investment in finance leases (note 8) .....	-	-	(2,026)	-	-	-	(2,026)
Reclassifications .....	6,510	517	85,557	2,967	54,629	(150,180)	-
Change in decommissioning provision (note 16) .....	-	4,586	16,225	-	23,828	-	44,639
Effect of movements in exchange rates .....	1,166	-	1,214	16,071	11,900	399	30,750
At December 31, 2014 .....	\$ 159,631	\$ 137,434	\$ 430,153	\$ 454,493	\$ 668,425	\$ 200,400	\$ 2,050,536
<b>Accumulated depreciation and impairment:</b>							
At January 1, 2014 .....	\$ 20,706	\$ 43,579	\$ 58,377	\$ 132,214	\$ 145,657	\$ -	\$ 400,533
Depreciation .....	4,832	9,073	19,494	54,781	66,754	-	154,934
Disposals .....	(22)	-	(244)	(8,605)	(1,252)	-	(10,123)
Effect of movements in exchange rates .....	83	-	584	6,234	3,722	-	10,623
At December 31, 2014 .....	\$ 25,599	\$ 52,652	\$ 78,211	\$ 184,624	\$ 214,881	\$ -	\$ 555,967
<b>Carrying amounts:</b>							
At January 1, 2014 .....	\$ 92,586	\$ 84,781	\$ 208,570	\$ 268,457	\$ 378,998	\$ 86,464	\$ 1,119,856
At December 31, 2014 .....	134,032	84,782	351,942	269,869	453,544	200,400	1,494,569

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

	Land & Buildings	Pipelines and connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
<b>Cost:</b>							
At January 1, 2013 .....	\$ 94,698	\$ 133,706	\$ 266,925	\$ 337,260	\$ 439,645	\$ 36,741	\$ 1,308,975
Additions .....	11,627	191	8,474	57,501	17,906	142,762	238,461
Disposals .....	-	-	(199)	(6,844)	(2,464)	-	(9,507)
Transfer to net investment in finance leases (note 8) .....	-	-	(15,905)	-	-	-	(15,905)
Reclassifications .....	6,109	(1,984)	15,722	5,132	68,289	(93,268)	-
Change in decommissioning provision (note 16) .....	-	(3,553)	(8,844)	-	(8,183)	-	(20,580)
Effect of movements in exchange rates .....	858	-	774	7,622	9,462	229	18,945
At December 31, 2013 .....	<u>\$ 113,292</u>	<u>\$ 128,360</u>	<u>\$ 266,947</u>	<u>\$ 400,671</u>	<u>\$ 524,655</u>	<u>\$ 86,464</u>	<u>\$ 1,520,389</u>
<b>Accumulated depreciation and impairment:</b>							
At January 1, 2013 .....	\$ 15,849	\$ 34,477	\$ 42,998	\$ 88,981	\$ 87,886	\$ -	\$ 270,191
Depreciation .....	4,829	9,102	15,285	46,160	58,478	-	133,854
Disposals .....	-	-	(83)	(5,396)	(1,696)	-	(7,175)
Effect of movements in exchange rates .....	28	-	177	2,469	989	-	3,663
At December 31, 2013 .....	<u>\$ 20,706</u>	<u>\$ 43,579</u>	<u>\$ 58,377</u>	<u>\$ 132,214</u>	<u>\$ 145,657</u>	<u>\$ -</u>	<u>\$ 400,533</u>
<b>Carrying amounts:</b>							
At January 1, 2013 .....	\$ 78,849	\$ 99,229	\$ 223,927	\$ 248,279	\$ 351,759	\$ 36,741	\$ 1,038,784
At December 31, 2013 .....	92,586	84,781	208,570	268,457	378,998	86,464	1,119,856

Additions to property, plant and equipment includes capitalization of interest of \$7.2 million and \$2.9 million for the year ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the carrying value includes \$0.6 million and \$2.3 million of assets capitalized under finance lease, respectively.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 10 Long-term prepaid expenses and other assets

	December 31,	
	2014	2013
Risk management assets (note 28) .....	\$ 34,855	\$ 15,646
Long-term prepaid expenses .....	371	442
Defined benefit plan assets.....	989	1,058
Other assets .....	3,563	2,494
	<u>\$ 39,778</u>	<u>\$ 19,640</u>

### 11 Income tax

The major components of income tax are as follows:

	Year ended December 31,	
	2014	2013
<b>Current tax provision</b>		
Current tax on income for the year.....	\$ 48,274	\$ 51,339
Adjustments in respect of prior years.....	275	735
<b>Total current tax provision</b> .....	<u>48,549</u>	<u>52,074</u>
Deferred tax recovery.....	(12,886)	(10,848)
Origination and reversal of temporary differences.....	(75)	(4,321)
<b>Total deferred tax recovery</b> .....	<u>(12,961)</u>	<u>(15,169)</u>
Income tax provision.....	<u>\$ 35,588</u>	<u>\$ 36,905</u>

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

	Year ended December 31,	
	2014	2013
Income before income taxes.....	\$ 127,529	\$ 140,721
Statutory income tax rate .....	25.3%	25.2%
Computed income tax provision .....	32,265	35,462
Increase (decrease) in income tax resulting from:		
Foreign exchange loss on long-term debt, net.....	4,646	4,026
Foreign exchange loss, other.....	4,704	2,995
Non-deductible expenses .....	484	1,568
Stock based compensation .....	3,533	2,091
Non-taxable dividends .....	(12,014)	(11,159)
Rate differential on foreign taxes.....	2,173	3,078
Other, including revisions in previous tax estimates and rate reductions .....	(203)	(1,156)
	<u>\$ 35,588</u>	<u>\$ 36,905</u>
Effective income tax rate .....	<u>27.9%</u>	<u>26.2%</u>
Current .....	48,549	52,074
Deferred .....	(12,961)	(15,169)
	<u>\$ 35,588</u>	<u>\$ 36,905</u>

The increase in the statutory rate was due to higher local income tax rates in Canada in the current year.

The income tax provision relating to actuarial gains and losses on post-employment benefit obligation recognized in other comprehensive income was \$0.2 million and \$0.4 million for the year ended December 31, 2014, and 2013.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

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

	December 31,	
	2014	2013
Deferred tax assets:		
Deferred tax asset to be settled after more than 12 months.....	\$ 1,532	\$ 4,487
Deferred tax asset to be settled within 12 months.....	2,000	3,700
	<u>3,532</u>	<u>8,187</u>
Deferred tax liabilities:		
Deferred tax liability to be settled after more than 12 months.....	172,851	184,605
Deferred tax liability to be settled within 12 months.....	18,500	9,500
	<u>191,351</u>	<u>194,105</u>
Deferred tax liabilities (net) .....	<u>\$ 187,819</u>	<u>\$ 185,918</u>

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

	Year ended December 31,	
	2014	2013
Opening balance.....	\$ 185,918	\$ 197,056
Effect of changes in foreign exchange rates.....	4,609	3,644
Recognized on business combinations (note 5) .....	10,429	-
Income statement (recovery).....	(12,961)	(15,169)
Tax (credit) charge relating to components of other comprehensive income.....	(176)	387
Closing balance .....	<u>\$ 187,819</u>	<u>\$ 185,918</u>

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

Deferred tax assets	Non-capital losses carried forward	Asset retirement obligations	Retirement benefits obligations	Other	Total
At January 1, 2013.....	\$ 22,271	\$ 10,882	\$ 2,062	\$ 28,294	\$ 63,509
Credited (charged) to the statement of operations.....	(2,291)	1,360	(195)	(6,066)	(7,192)
Credited to other comprehensive income .....	-	-	(387)	-	(387)
Effect of changes in foreign exchange rates .....	1,513	269	-	(1,186)	596
At December 31, 2013.....	<u>\$ 21,493</u>	<u>\$ 12,511</u>	<u>\$ 1,480</u>	<u>\$ 21,042</u>	<u>\$ 56,526</u>
Credited (charged) to the statement of operations.....	(5,062)	1,006	(213)	(9,350)	(13,619)
Charged to other comprehensive income.....	-	-	176	-	176
Effect of changes in foreign exchange rates .....	1,686	380	-	1,531	3,597
At December 31, 2014.....	<u>\$ 18,117</u>	<u>\$ 13,897</u>	<u>\$ 1,443</u>	<u>\$ 13,223</u>	<u>\$ 46,680</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

<b>Deferred tax liabilities</b>	<b>Timing of Partnership Income</b>	<b>Property, Plant and Equipment</b>	<b>Accounting and tax basis differences</b>	<b>Other</b>	<b>Total</b>
At January 1, 2013.....	\$ (61,386)	\$(154,052)	\$ (43,434)	\$ (1,693)	\$ (260,565)
Credited (charged) to the statement of operations.....	13,918	2,243	4,507	1,693	22,361
Effect of changes in foreign exchange rates .	-	(4,240)	-	-	(4,240)
At December 31, 2013.....	<u>\$ (47,468)</u>	<u>\$(156,049)</u>	<u>\$ (38,927)</u>	<u>\$ -</u>	<u>\$ (242,444)</u>
Credited (charged) to the statement of operations.....	14,606	1,412	11,285	(723)	26,580
Business combinations.....	-	(10,429)	-	-	(10,429)
Effect of changes in foreign exchange rates .	-	(5,934)	(1,272)	(1,000)	(8,206)
At December 31, 2014.....	<u>\$ (32,862)</u>	<u>\$(171,000)</u>	<u>\$ (28,914)</u>	<u>\$ (1,723)</u>	<u>\$ (234,499)</u>

### Income tax losses carry forward

At December 31, 2014 and 2013, the Company had losses available to offset income for tax purposes of \$48.8 million and \$60.5 million, respectively. At December 31, 2014, the Company has \$1.3 million and \$47.5 million of the losses available in Canada and the United States, respectively that expire as follows:

December 31, 2030.....	\$ 673
December 31, 2031.....	33,831
December 31, 2032.....	12,799
December 31, 2033.....	126
December 31, 2034.....	1,332
	<u>\$ 48,761</u>

No income tax liability has been recognized in respect of temporary differences associated with investments in subsidiaries. As no income taxes are expected to be paid in respect of these differences related to Canadian subsidiaries, the amounts have not been determined. There are no taxable temporary differences associated with investments in non-Canadian subsidiaries.



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 12 Intangible assets

	Brands	Customer relationships	Long-term Contracts	Non-compete agreements	Technology	Software	License and Permits	Total
<b>Cost:</b>								
At January 1, 2014 .....	\$ 50,465	\$ 235,096	\$ 34,653	\$ 23,368	\$ 2,579	\$ 27,911	\$ 3,448	\$ 377,520
Additions .....	-	754	-	-	-	19,498	-	20,252
Acquisitions through business combinations (note 5) .....	-	10,602	-	2,592	-	-	-	13,194
Effect of movements in exchange rates .....	865	12,264	2,727	594	88	130	268	16,936
At December 31, 2014 ..	\$ 51,330	\$ 258,716	\$ 37,380	\$ 26,554	\$ 2,667	\$ 47,539	\$ 3,716	\$ 427,902

#### Accumulated

##### amortization:

At January 1, 2014 .....	\$ 28,142	\$ 101,478	\$ 14,801	\$ 17,468	\$ 1,980	\$ 9,944	\$ 1,312	\$ 175,125
Amortization .....	10,617	31,637	3,772	2,894	340	4,547	1,184	54,991
Effect of movements in exchange rates .....	692	3,681	1,129	561	51	(39)	174	6,249
At December 31, 2014 ..	\$ 39,451	\$ 136,796	\$ 19,702	\$ 20,923	\$ 2,371	\$ 14,452	\$ 2,670	\$ 236,365

#### Carrying amounts:

At January 1, 2014 .....	\$ 22,323	\$ 133,618	\$ 19,852	\$ 5,900	\$ 599	\$ 17,967	\$ 2,136	\$ 202,395
At December 31, 2014 ..	11,879	121,920	17,678	5,631	296	33,087	1,046	191,537

	Brands	Customer relationships	Long-term Contracts	Non-compete agreements	Technology	Software	License and Permits	Total
<b>Cost:</b>								
At January 1, 2013 .....	\$ 49,881	\$ 226,364	\$ 32,712	\$ 22,945	\$ 2,516	\$ 19,470	\$ 3,074	\$ 356,962
Additions .....	-	-	-	-	-	8,333	162	8,495
Effect of movements in exchange rates .....	584	8,732	1,941	423	63	108	212	12,063
At December 31, 2013 ..	\$ 50,465	\$ 235,096	\$ 34,653	\$ 23,368	\$ 2,579	\$ 27,911	\$ 3,448	\$ 377,520

#### Accumulated

##### amortization:

At January 1, 2013 .....	\$ 18,280	\$ 70,900	\$ 10,515	\$ 13,934	\$ 1,651	\$ 7,073	\$ 171	\$ 122,524
Amortization .....	9,694	29,396	3,698	3,142	317	2,858	1,098	50,203
Effect of movements in exchange rates .....	168	1,182	588	392	12	13	43	2,398
At December 31, 2013 ..	\$ 28,142	\$ 101,478	\$ 14,801	\$ 17,468	\$ 1,980	\$ 9,944	\$ 1,312	\$ 175,125

#### Carrying amounts:

At January 1, 2013 .....	\$ 31,601	\$ 155,464	\$ 22,197	\$ 9,011	\$ 865	\$ 12,397	\$ 2,903	\$ 234,438
At December 31, 2013 ..	22,323	133,618	19,852	5,900	599	17,967	2,136	202,395

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 13 Goodwill

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

	Year ended	
	December 31,	
	2014	2013
Balance as at January 1 .....	\$ 726,148	\$ 709,358
Additions through business combinations (note 5) .....	33,989	-
Effect of changes in foreign exchange rates .....	23,584	16,790
Balance as at December 31 .....	<u>\$ 783,721</u>	<u>\$ 726,148</u>

The goodwill recorded on the balance sheet represents the excess of the cost of acquisitions over the fair value of identifiable assets, liabilities and contingent liabilities acquired. Of the balance as at December 31, 2014 and 2013, \$432.7 million, net of impairment, relates to goodwill recognized on the acquisition of the Company by the wholly-owned subsidiary of R/C Guitar Cooperatief U.A. (“Co-op”), a Dutch Co-op owned by investment funds affiliated with Riverstone Holdings LLC (“Riverstone”), from Hunting PLC (“Hunting”) on December 12, 2008. Of the remaining balance, \$314.0 million represents additional goodwill recorded on acquisitions completed and \$37.0 million relates to the effect of changes in foreign exchange rates recorded by the Company since December 12, 2008.

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

	December 31,	
	2014	2013
Terminals and Pipelines .....	\$ 200,120	\$ 199,972
Environmental Services .....	234,731	216,542
Truck Transportation .....	54,474	51,388
Propane and NGL Marketing and Distribution .....	133,177	97,027
Processing and Wellsite Fluids .....	117,664	117,664
Marketing .....	43,555	43,555
	<u>\$ 783,721</u>	<u>\$ 726,148</u>

The recoverable amount of goodwill has been determined based on a fair value less costs of disposal calculation. This calculation involves comparing the fair value of each operating segment to its carrying value, including goodwill, at November 30, the annual impairment test date. To calculate a fair value, management uses an earning’s multiple approach. In calculating earnings, the Company uses Board approved budgets to determine earnings before interest, taxes, depreciation and amortization (“EBITDA”) by operating segment. Corporate expenses are allocated to the operating segments based on assumptions such as expected usage and headcount. To determine fair value, an implied multiple was applied to each operating segment’s EBITDA less corporate expenses. The implied multiple was calculated by looking at multiples of comparable public companies by operating segment up to 12.7. For all operating segments, the fair value less costs of disposal was greater than the operating segments carrying value, including goodwill. Accordingly, goodwill is not considered impaired in the years ended December 31, 2014 and 2013. The fair value of each of operating segment was categorized as Level 2 fair value based on the observables inputs.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 14 Loans and Borrowings

#### *Revolving Credit Facility*

On June 28, 2013, the Company established a revolving credit facility of up to \$500.0 million (the “Revolving Credit Facility”), the proceeds of which are available to provide financing for working capital and other general corporate purposes. On August 20, 2014, the Company amended the Revolving Credit Facility to among other things, release all security required by the lenders and to extend the maturity date from June 28, 2018 to August 15, 2019. The Company incurred debt financing costs of \$1.6 million and \$2.1 million in the year ended December 2014 and 2013, respectively, which were capitalized as a part of prepaid expenses and other assets.

The Revolving Credit Facility provides sub-facilities for letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars. Borrowings under the Revolving Credit Facility bear interest at a rate equal to Canadian Prime Rate or U.S. Base Rate or LIBOR or Canadian Bankers Acceptance Rate as the case may be plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is subject to step up and step down based on the Company’s total debt leverage ratio. In addition, the Company must pay a standby fee on the unused portion of the Revolving Credit Facility and customary letter of credit fees equal to the applicable margins based on the Company’s total debt leverage ratio.

The Revolving Credit Facility contains certain covenants including financial covenants requiring the Company to maintain ratios of maximum senior debt leverage ratio of 3.5:1.0, maximum total debt leverage ratio of 4.0:1.0 and minimum interest coverage ratio of 2.5:1.0. As at December 31, 2014, the Company was in compliance with all covenants under the Revolving Credit Facility.

The Company has no amounts drawn against the Revolving Credit Facility as at December 31, 2014. The Company had issued letters of credit totalling \$57.5 million and \$57.4 million as at December 31, 2014 and December 31, 2013, respectively.

#### *Long-term debt*

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
U.S.\$550.0 million 6.75% Notes due July 15, 2021 (December 31, 2013: U.S.\$500.0 million).....	\$ 638,055	\$ 531,800
\$250.0 million 7.00% Notes due July 15, 2020 .....	250,000	250,000
\$300.0 million 5.375% Notes due July 15, 2022 .....	300,000	-
Unamortized issue discount and debt issue costs .....	(22,687)	(24,234)
Long-term debt: non-current portion .....	<u>\$ 1,165,368</u>	<u>\$ 757,566</u>

On June 28, 2013, the Company issued U.S.\$500.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at issue price of 98.476% and \$250.0 million 7.00% Senior Unsecured Notes due July 15, 2020 at issue price of 98.633%. On June 12, 2014, the Company issued U.S.\$50.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at issue price of 108% under its existing indenture and issued \$300.0 million 5.375% Senior Unsecured Notes due July 15, 2022 at issue price of par (collectively, the “Notes”). Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding.

The Company incurred and capitalized debt issue costs of \$5.4 million and \$14.1 million in the year-ended December 31, 2014 and 2013, respectively. A portion of the proceeds from the Notes issued in 2014 was used to repay all outstanding indebtedness under the Revolving Credit Facility.

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

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The Notes contain non-financial covenants and customary events of default clauses. As of December 31, 2014 and 2013, the Company was in compliance with all of its covenants under the Notes.

### Foreign exchange loss on long-term debt

As a result of the movement in foreign exchange rates, the Company recorded foreign exchange losses, net, on long-term debt as follows:

	Year ended	
	December 31,	
	2014	2013
Foreign exchange loss on movement in exchanges rates on U.S. dollar long-term debt ....	\$ 52,000	\$ 42,451
Gain on financial instruments relating to long-term debt (note 28) .....	(16,569)	(22,500)
	<u>\$ 35,431</u>	<u>\$ 19,951</u>

### Debt extinguishment costs

Concurrent with the completion of the issuance of the Notes and the establishment of the Revolving Credit Facility in 2013, the Company terminated its previous senior secured first lien credit facility which comprised of the Tranche B Term Loan facility of U.S.\$650.0 million and a revolving credit facility of up to U.S.\$375.0 million. As a result, the Company recognised debt extinguishment costs of \$38.2 million comprising unamortized debt issue costs of \$22.8 million, unamortized financial instrument liability discount of \$10.0 million and unamortized financing costs of \$5.4 million during the year ended December 31, 2013.

## 15 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	December 31,	
	2014	2013
Trade payables .....	\$ 445,670	\$ 456,955
Accrued compensation charges.....	43,988	36,591
Indirect taxes payable .....	3,157	1,980
Risk management liabilities (note 28) .....	18,135	2,465
Broker accounts payable .....	183	2,610
Defined benefit plan obligations .....	757	825
Interest payable .....	36,892	27,894
Due to Hunting (note 19) .....	8,999	9,199
Other .....	23,682	26,660
	<u>\$ 581,463</u>	<u>\$ 565,179</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 16 Provisions

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

	Year ended December 31,	
	2014	2013
Opening balance.....	\$ 91,424	\$ 111,197
Settlements.....	(4,462)	(3,305)
Assumed in a business combination (note 5).....	824	-
Additions.....	4,152	2,032
Change in estimated future cash flows.....	14,584	705
Change in discount rate.....	25,903	(23,317)
Unwinding of discount.....	2,898	3,380
Effect of changes in foreign exchange rates.....	1,024	732
Closing balance.....	<u>\$ 136,347</u>	<u>\$ 91,424</u>

The Company currently estimates the total undiscounted future value amount, including an inflation factor of 2.0%, of estimated cash flows to settle the future liability for asset retirement and remediation obligations to be approximately \$265.7 million and \$228.9 million at December 31, 2014 and 2013, respectively. In order to determine the current provision related to these future values, the estimated future values were discounted using an average risk-free rate of 2.3% and 3.1% at December 31, 2014 and 2013, respectively. The provision is expected to be settled up to 40 years into the future. A one percent increase in the risk-free rate would decrease the provision by \$31.4 million, with a corresponding adjustment to property, plant and equipment. A one percent decrease in the risk-free rate would increase the provision by \$31.4 million, with a corresponding adjustment to property, plant and equipment.

### 17 Other long-term liabilities

	December 31,	
	2014	2013
Defined benefit plan obligations.....	\$ 5,939	\$ 6,086
Risk management liabilities (note 28).....	8,269	5,046
Finance lease liabilities.....	-	345
Other.....	602	4,010
	<u>\$ 14,810</u>	<u>\$ 15,487</u>

### 18 Share capital

#### Authorized

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

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

The preferred shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. The preferred shares shall rank senior to the common shares with respect to the payment of dividends or distribution of assets or return of capital of the Company in the event of a dissolution, liquidation or winding up of the Company. There were no issued and outstanding preferred shares as at December 31, 2014 and 2013.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Common Shares - Issued and outstanding

The following table below sets forth the issued and outstanding common shares for the years ended December 31, 2014 and 2013.

	Common Shares	
	Number of Common Shares	Amount
Balance as at January 1, 2013 .....	120,123,530	\$ 1,543,149
Issuance of common shares in connection with the exercise of stock options .....	135,340	1,169
Issuance of common shares in connection with other equity awards .....	375,976	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	1,565,346	37,389
Transfer from contributed surplus on issue of equity awards .....	-	3,438
Balance as at December 31, 2013 .....	122,200,192	\$ 1,585,145
Issuance of common shares in connection with the exercise of stock options .....	580,145	5,942
Issuance of common shares in connection with other equity awards .....	436,783	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	1,271,425	36,648
Transfer from contributed surplus on issue of equity awards .....	-	6,266
Balance as at December 31, 2014 .....	124,488,545	\$ 1,634,001

A dividend of \$0.30 per share, declared in November 2014, was paid on January 16, 2015.

## 19 Commitments and contingencies

### Commitments

Operating lease obligations primarily relate to office leases, rail tank cars, vehicles, field buildings, various equipment and terminal services arrangements. These leases expire at various dates over the next 10 years. The minimum payments required under these commitments, net of sub-lease income, are as follows:

2015 .....	\$ 70,097
2016 .....	63,688
2017 .....	55,645
2018 .....	48,757
2019 .....	38,766
2020 and later .....	24,321
	<u>\$ 301,274</u>

Expenses related to operating leases, net of sublease income, were \$39.6 million and \$28.2 million for the year ended December 31, 2014 and 2013, respectively.

With respect to capital expenditures, at December 31, 2014, the Company had \$409.1 million remaining to be spent that relates to projects approved at that date.

### Contingencies

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

As a part of the acquisition of the Company by Riverstone from Hunting on December 12, 2008, Hunting has indemnified the Company for the pre-closing period impact of these audits. Included in income tax receivable and trade payables and accrued charges as at December 31, 2014 and December 31, 2013 is \$9.0 million and \$9.2 million, respectively, whereby Hunting paid the Company and the Company paid the tax assessments relative to certain of these audits. The Company has assumed

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

that the remaining assessment amounts paid in connection with these audits will be refunded to the Company and although the timing is uncertain, will be settled within a year.

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

The Company is involved in various legal actions, which have occurred in the ordinary course of business. Management is of the opinion that losses, if any, arising from such legal actions would not have a material impact on the Company's consolidated financial position or results of operations.

### 20 Revenue

	Year ended December 31,	
	2014	2013
Products .....	\$ 7,507,013	\$ 5,998,769
Services .....	1,066,516	941,900
	<u>\$ 8,573,529</u>	<u>\$ 6,940,669</u>

### 21 Depreciation and amortization

	Year ended December 31,	
	2014	2013
Depreciation of property, plant and equipment.....	\$ 154,934	\$ 133,854
Amortization of intangible assets.....	54,991	50,203
	<u>\$ 209,925</u>	<u>\$ 184,057</u>

Depreciation of property, plant and equipment and amortization of intangible assets have been expensed as follows:

	Year ended December 31,	
	2014	2013
Cost of sales .....	\$ 205,043	\$ 179,620
General and administrative .....	4,882	4,437
	<u>\$ 209,925</u>	<u>\$ 184,057</u>

### 22 Employee salaries and benefits

	Year ended December 31,	
	2014	2013
Salaries and wages .....	\$ 292,188	\$ 255,697
Post-employment benefits.....	6,394	5,568
Share based compensation .....	13,977	8,271
Termination benefits .....	1,365	746
	<u>\$ 313,924</u>	<u>\$ 270,282</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

Employee salaries and benefits have been expensed as follows:

	Year ended December 31,	
	2014	2013
Cost of sales .....	\$ 280,730	\$ 241,568
General and administrative .....	33,194	28,714
	<u>\$ 313,924</u>	<u>\$ 270,282</u>

### 23 Other operating income

	Year ended December 31,	
	2014	2013
Gain on sale of property, plant and equipment .....	\$ 2,717	\$ 1,029
Foreign exchange gain .....	9,128	5,547
	<u>\$ 11,845</u>	<u>\$ 6,576</u>

### 24 Per share amounts

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

	Year ended December 31,	
	2014	2013
Weighted average common shares outstanding - Basic .....	123,591,547	121,376,222
Dilutive effect of:		
Stock options and other awards .....	2,004,643	1,708,187
Weighted average common shares – Diluted .....	<u>125,596,190</u>	<u>123,084,409</u>

### 25 Related party transactions

#### *Joint operations*

On August 11, 2011, the Company formed a partnership (the “Plato Partnership”) to jointly construct and own pipeline and emulsion treating, water disposal and oilfield waste management facilities in the Plato area of Saskatchewan. The Plato Partnership commenced operations in 2012. The Company’s interest in the Plato Partnership is 50%. A member of the Company’s Board is also a director of the other party with the 50% interest in the Plato Partnership. At December 31, 2014 and 2013, the Company’s proportionate share of property, plant and equipment was \$10.2 million and \$10.5 million, respectively. The impact of the Company’s share of the other financial position and results of the Partnership is not material to the Company’s consolidated financial statements.

#### *Compensation of key management*

Key management includes the Company’s directors, executive officers, business unit leaders and other non-business unit senior vice presidents. Compensation awarded to key management was:

	Year ended December 31,	
	2014	2013
Salaries and short-term employee benefits.....	\$ 7,597	\$ 6,079
Post-employment benefits.....	1,068	817
Share based compensation .....	4,639	2,696
	<u>\$ 13,304</u>	<u>\$ 9,592</u>



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 26 Post-retirement benefits

#### Defined benefit plans

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

The Company’s defined benefit pension plans are funded based upon the advice of independent actuaries. The Company is required to file an actuarial valuation of its pension plans with the provincial regulator every three years, with the most recent actuarial valuation filing as at December 31, 2012. Based on the actuarial valuations as at December 31, 2014 and 2013, the status of the defined benefit plans was as follows:

#### Accrued benefit obligation

	Year ended December 31,			
	2014		2013	
	Pension	OPRB	Pension	OPRB
Accrued benefit obligation, beginning of year .....	\$ 15,187	\$ 3,605	\$ 14,736	\$ 3,996
Current service cost .....	212	135	323	506
Interest cost .....	674	156	558	155
Benefits paid .....	(518)	(287)	(500)	(261)
Actuarial loss (gain) .....	773	452	56	(791)
Other .....	14	-	14	-
Accrued benefit obligation, end of year .....	<u>\$ 16,342</u>	<u>\$ 4,061</u>	<u>\$ 15,187</u>	<u>\$ 3,605</u>

#### Plan assets

	Year ended December 31,			
	2014		2013	
	Pension	OPRB	Pension	OPRB
Fair value of pension plan assets, beginning of year .....	\$ 12,939	\$ -	\$ 11,107	\$ -
Interest on plan assets .....	536	-	394	-
Actual contributions .....	1,211	287	1,142	261
Actual benefits paid .....	(518)	(287)	(500)	(261)
Actuarial gain .....	528	-	796	-
Fair value of pension plan assets, end of year .....	<u>\$ 14,696</u>	<u>\$ -</u>	<u>\$ 12,939</u>	<u>\$ -</u>

#### Accrued benefit liability

	December 31,			
	2014		2013	
	Pension	OPRB	Pension	OPRB
Accrued benefit obligation .....	\$ (16,342)	\$ (4,061)	\$ (15,187)	\$ (3,605)
Fair value of plan assets .....	14,696	-	12,939	-
Accrued benefit liability .....	<u>\$ (1,646)</u>	<u>\$ (4,061)</u>	<u>\$ (2,248)</u>	<u>\$ (3,605)</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The significant weighted average actuarial assumptions adopted in measuring the Company's post-retirement benefit obligation are as follows:

	Year ended December 31,	
	2014	2013
Discount rate .....	4.00%	4.75%
Rate of compensation increase.....	4.00%	4.00%
Health care cost trend rate for next year .....	7.0%	7.0%

Assumed discount rate and health care cost and trend rates have an effect on the amounts reported for defined benefit plan obligations. A one-percentage point change in discount rate and assumed health care cost and trend rates would have the following impact:

	One % point increase	One % point decrease
Discount rate effect on defined benefit plans obligations .....	\$ (2,939)	\$ 3,079
Health care cost and trend rates effect on OPRB .....	571	(450)

### Defined contribution pension plan

The Company operates defined contribution plans whereby, in some cases, contributions made by participants are matched by the Company up to specified annual limits and in other cases, contributions are fully funded by the Company. The total expense recorded for the defined contribution pension plans was \$6.2 million and \$5.0 million for the year ended December 31, 2014 and 2013, respectively.

### 27 Share based compensation

The Company has established an equity incentive plan which permits the award of stock options, RSUs, PSUs' and DSUs for executives, directors, employees and consultants of the Company. RSUs give the holder the right to receive a cash payment, subject to consent of the Board, or its equivalent in fully paid common shares equal to the fair market value of the Company's common shares at the date of such payment. The RSUs granted in 2014 and 2013 were expected to be settled by delivery of common shares and accordingly, were considered an equity-settled award for accounting purposes. RSUs granted generally vest over a three year period. RSUs granted with specific performance criteria are designated as PSUs. DSUs are similar to RSUs except that DSUs may not be redeemed until the holder ceases to hold all offices, employment and directorships.

At December 31, 2014, awards available to grant under the equity incentive plan totalled approximately 8.6 million.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

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

	Number of Shares	Weighted- Average Exercise Price (in dollars)
Balance at January 1, 2013.....	1,294,142	\$ 8.66
Granted .....	798,233	25.87
Exercised.....	(135,340)	8.64
Forfeited.....	(28,050)	24.88
Balance at December 31, 2013.....	1,928,985	16.22
Granted .....	1,159,259	28.72
Exercised.....	(580,145)	10.24
Forfeited.....	(22,884)	25.94
Balance at December 31, 2014.....	2,485,215	\$ 23.33
Vested and exercisable at December 31, 2014.....	847,530	\$ 15.03
Vested and exercisable at December 31, 2013.....	1,076,097	\$ 9.33

Additional information under the 2011 Equity Incentive Plan regarding stock options outstanding as of December 31, 2014 is as follows:

Outstanding			Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price (in dollars)	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Exercise Price (in dollars)
537,132	4.0	\$ 8.64	537,132	4.0	\$ 8.64
4,750	3.6	16.10	4,750	3.6	16.10
33,681	4.4	20.67	19,547	4.4	20.67
40,164	4.5	22.03	26,776	4.5	22.03
21,930	5.5	24.44	7,310	5.5	24.44
688,299	5.2	25.94	204,761	5.2	25.93
1,076,412	6.2	28.28	16,103	6.2	28.28
82,847	6.6	34.44	31,151	6.6	34.44
2,485,215	5.4		847,530	4.5	

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

	Number of Shares		
	RSUs	PSUs	DSUs
Balance at January 1, 2013 .....	870,038	76,276	44,956
Granted .....	246,604	155,478	50,065
Forfeited.....	(15,145)	(6,504)	-
Issued .....	(373,886)	(2,090)	-
Balance at December 31, 2013 .....	727,611	223,160	95,021
Granted .....	270,308	438,590	52,955
Issued for common shares.....	(429,526)	(7,257)	-
Forfeited.....	(22,012)	(24,542)	(1,190)
Issued for cash .....	(1,628)	(992)	-
Balance at December 31, 2014 .....	544,753	628,959	146,786
Vested, Balance at December 31, 2014 .....	110,652	-	146,786
Vested, Balance at December 31, 2013 .....	114,345	-	73,599

Stock based compensation expense was \$14.0 million and \$8.3 million for the years ended December 31, 2014 and 2013, respectively, and is included in general and administrative expenses.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The fair value of the options granted was estimated at \$2.46 per option and \$2.40 per option for the year ended December 31, 2014 and 2013, respectively. The fair value of options was calculated by using the Black-Scholes model with the following weighted average assumptions:

	Year ended December 31,	
	2014	2013
Expected dividend rate.....	4.3%	4.0%
Expected volatility .....	19.5%	20.2%
Risk-free interest rate .....	1.2%	1.2%
Expected life of option (years).....	3.0	3.0

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

### 28 Financial instruments

#### *Non-Derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, net investment in finance lease, trade payables and accrued charges, amount borrowed under the credit facilities, dividends payable, and long-term debt.

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

Long-term debt is recorded at amortized cost using the effective interest method of amortization. As at December 31, 2014, the carrying amount of long-term debt was \$1,188.1 million less debt discount and issue costs of \$22.7 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,193.6 million. As at December 31, 2013, the carrying amount of long-term debt was \$781.8 million less debt discount and issue costs of \$24.2 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$805.9 million.

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

	December 31, 2014		December 31, 2013	
	Trade and other receivables	Trade payable and accrued charges	Trade and other receivables	Trade payable and accrued charges
Gross amounts.....	\$ 430,794	\$ 417,337	\$ 560,256	\$ 529,789
Amount offset .....	(316,703)	(316,703)	(409,636)	(409,636)
Net amount included in the consolidated financial statements .....	<u>\$ 114,091</u>	<u>\$ 100,634</u>	<u>\$ 150,620</u>	<u>\$ 120,153</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Derivative financial instruments (recurring fair value measurements)*

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

	December 31, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Commodity futures .....	\$ 4,850	\$ 490	\$ -	\$ 336
Commodity swaps.....	13,847	16,928	1,095	1,914
Commodity options.....	-	-	13	-
Foreign currency forwards .....	34,860	717	15,651	215
Foreign currency options .....	-	8,269	7	5,046
Total .....	<u>\$ 53,557</u>	<u>\$ 26,404</u>	<u>\$ 16,766</u>	<u>\$ 7,511</u>
Less non-current portion:				
Foreign currency forward contracts .....	34,855	-	15,646	-
Foreign currency options .....	-	8,269	-	5,046
	<u>34,855</u>	<u>8,269</u>	<u>15,646</u>	<u>5,046</u>
Current portion.....	<u>\$ 18,702</u>	<u>\$ 18,135</u>	<u>\$ 1,120</u>	<u>\$ 2,465</u>

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

#### (i) Commodity financial instruments

##### *WTI Futures, options and swaps*

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

##### *Natural Gas Liquids ("NGL")*

The Company enters into NGL swap contracts to manage the risk associated with sales, purchases and inventories of NGLs.

#### (ii) Currency financial instruments

The Company enters into forward and options contracts to buy and sell U.S. dollars in exchange for Canadian dollars to fix the exchange rate on its estimated future net cash inflows denominated in U.S. dollars and long-term borrowings denominated in U.S. dollars.

##### *U.S. Dollar Forwards*

As at December 31, 2014 and 2013, the Company had U.S. dollar forward contracts to buy U.S. dollars on a notional amount of U.S.\$250.0 million and U.S.\$260.0 million, respectively, at a weighted average rate of \$1.0242 for U.S.\$1.00 expiring on September 15, 2017. In June 2014, the Company received cash of \$0.7 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$10.0 million. Following the repayment of Tranche B Term Loan on June 28, 2013, the Company received cash of \$11.6 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$238.0 million.

##### *U.S. Dollar Options*

As at December 31, 2014 and 2013, the Company had sold U.S. dollar options at a strike price of \$1.295 for U.S.\$1.00 on a notional amount of U.S.\$250.0 million and U.S.\$260.0 million, respectively, expiring on September 15, 2017. In June 2014, the Company paid cash of \$0.1 million to settle U.S. dollar options for a notional amount of U.S.\$10.0 million. Following the repayment of Tranche B Term Loan on June 28, 2013, the Company paid \$0.2 million to settle U.S. dollar options for a notional amount of U.S.\$15.0 million.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### *Interest Rate Swap*

In the year ended December 31, 2011, the Company entered into a U.S. dollar interest rate swap to hedge a portion of the Company's U.S. dollar floating interest rate exposure on the Company's long-term debt. The swap effectively fixed the interest rate on U.S.\$175.0 million of the principal at 5.5% for a three year period beginning in September 2012. Following the repayment of Tranche B Term Loan on June 28, 2013, the Company paid \$2.7 million to settle the U.S. dollar interest rate swap.

### *Interest Rate Floor*

The Tranche B Term Loan carried an interest rate of Adjusted LIBOR plus 3.75%, subject to a minimum Adjusted LIBOR floor of 1.0%. This interest rate floor was considered an embedded derivative as the floor rate exceeded the market rate of interest at the time that the debt was incurred and modified. As a result, the interest rate floor derivative was separated from the carrying value of long-term debt and accounted for as a separate financial liability measured at fair value. Following the repayment of Tranche B Term Loan on June 28, 2013, the Company derecognized the interest rate floor financial instrument liability discount and accordingly, recognized a gain in financial instrument relating to interest expense of \$17.1 million in the year ended December 31, 2013.

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

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

- The fair value of commodity options and swaps is calculated as the present value of the estimated future cash flows based on the difference between contract price and commodity price forecast.
- The fair value of foreign currency options and forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2014 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets from financial instrument contracts</b>				
Commodity futures .....	\$ 4,850	\$ 4,850	\$ -	\$ -
Commodity swaps .....	13,847	-	13,847	-
Foreign currency forwards.....	34,860	-	34,860	-
Foreign currency options .....	-	-	-	-
Total assets .....	<u>\$ 53,557</u>	<u>\$ 4,850</u>	<u>\$ 48,707</u>	<u>\$ -</u>
<b>Liabilities from financial instrument contracts</b>				
Commodity futures .....	\$ 490	\$ 490	\$ -	\$ -
Commodity swaps .....	16,928	-	16,928	-
Foreign currency forwards.....	717	-	717	-
Foreign currency options .....	8,269	-	8,269	-
Total liabilities .....	<u>\$ 26,404</u>	<u>\$ 490</u>	<u>\$ 25,914</u>	<u>\$ -</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The fair value of derivative financial instrument contracts by fair value hierarchy at December 31, 2013 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets from financial instrument contracts</b>				
Commodity swaps .....	\$ 1,095	\$ -	\$ 1,095	\$ -
Commodity options .....	13	-	13	-
Foreign currency options .....	7	-	7	-
Foreign currency forwards.....	15,651	-	15,651	-
Total assets .....	<u>\$ 16,766</u>	<u>\$ -</u>	<u>\$ 16,766</u>	<u>\$ -</u>
<b>Liabilities from financial instrument contracts</b>				
Commodity swaps .....	\$ 1,914	\$ -	\$ 1,914	\$ -
Commodity futures .....	336	336	-	-
Foreign currency options .....	5,046	-	5,046	-
Foreign currency forwards.....	215	-	215	-
Total liabilities.....	<u>\$ 7,511</u>	<u>\$ 336</u>	<u>\$ 7,175</u>	<u>\$ -</u>

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

	<u>Year ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cost of sales .....	\$ (1,883)	\$ 622
Foreign exchange gain on long-term debt (note 14) .....	(16,569)	(22,500)
Gain on financial instrument relating to interest expense .....	-	(18,252)
	<u>\$ (18,452)</u>	<u>\$ (40,130)</u>

### Financial Risk Management

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

There are clearly defined objectives and principles for managing financial risk, with policies, parameters and procedures covering the specific areas of funding, banking relationships, interest rate exposures and cash management. The Company's treasury function is responsible for implementing the policies and providing a centralised service to the Company for identifying, evaluating and monitoring financial risks.

#### a) Foreign currency exchange risk

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

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

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Foreign currency exchange rate sensitivity

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

	December 31,	
	2014	2013
<b>U.S. Dollar Forwards and Options</b>		
Favorable 5% change.....	\$ 3,223	\$ 5,063
Unfavorable 5% change.....	(3,223)	(5,260)
<b>U.S. Dollar long-term debt Forwards and the related Options</b>		
Favorable 5% change.....	\$ 10,694	\$ 11,566
Unfavorable 5% change.....	(10,694)	(11,566)

The movement is a result of a change in the fair value of U.S. dollar forward contracts and options. The sensitivity relating to the Company's long-term debt includes the change in the carrying value of the Company's U.S. dollar denominated long-term debt, the U.S. dollar forward contracts on the principal and the related U.S. dollar call options.

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

### b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will be affected by changes in market interest rates. As a result of the repayment of Tranche B Term Loan on June 28, 2013, the Company settled the interest rates swap and derecognized its interest rate floor financial instrument liability discount, and accordingly, the Company no longer has exposure to changes in market interest rates as at December 31, 2014 relating to these financial instruments.

### c) Commodity price risk

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

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

	December 31,	
	2014	2013
<b>Crude oil and NGL related prices</b>		
Favorable 15% change.....	\$ 5,634	\$ 3,082
Unfavorable 15% change.....	(5,634)	(3,004)

### d) Credit risk

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

At December 31, 2014 and 2013, approximately 6% and 4%, respectively, of net trade receivables are past due but not considered to be impaired. The Company considers trade receivables as past due when it is 30 days past the due date. The maximum exposure to credit risk related to trade receivables is their carrying value as disclosed in these financial statements.



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company does not usually require collateral in respect of trade and other receivables. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. The provision is based on an individual account-by-account analysis and prior credit history.

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

The Company's cash equivalents are placed in time deposits with investment grade international banks and financial institutions.

### e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's process for managing liquidity risk includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required and as conditions change. Sufficient funds and the Revolving Credit Facility are available to satisfy the Company's requirements over the next 12 months, and are expected to be available to satisfy the Company's long term requirements. The Company has a Revolving Credit Facility of \$500.0 million and at December 31, 2014, no amount was drawn against the facility other than outstanding issued letters of credit.

The terms of the Notes and Revolving Credit Facility require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At December 31, 2014 and December 31, 2013, the Company was in compliance with these covenants.

Set out below is maturity analyses of certain of the Company's financial contractual obligations as at December 31, 2014. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	<u>On demand or within one year</u>	<u>Between one and five years</u>	<u>After five years</u>	<u>Total</u>
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest .....	\$ 526,436	\$ -	\$ -	\$ 526,436
Dividend payable .....	37,346	-	-	37,346
Long-term debt.....	-	-	1,188,055	1,188,055
Interest payment on long-term debt .....	76,694	306,776	213,177	596,647
Commodity futures .....	490	-	-	490
Commodity swaps.....	16,928	-	-	16,928
Foreign currency forwards and options.....	717	8,269	-	8,986
	<u>\$ 658,611</u>	<u>\$ 315,045</u>	<u>\$1,401,232</u>	<u>\$ 2,374,888</u>

### Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity, long-term debt, the Revolving Credit Facility and working capital. To maintain or adjust the capital structure, the Company may raise debt or issue equity and/or adjust its capital spending to manage its current and projected debt levels.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

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

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

	December 31,	
	2014	2013
Total financial liability borrowings.....	\$ 1,165,368	\$ 757,566
Less: cash and cash equivalents .....	(131,911)	(97,182)
Net debt.....	1,033,457	660,384
Total share capital.....	1,634,001	1,585,145
<b>Total capital.....</b>	<b>\$ 2,667,458</b>	<b>\$ 2,245,529</b>

If the Company is in a net debt position, the Company will assess whether the projected cash flow and availability under the Revolving Credit Facility is sufficient to service this debt and support ongoing operations.

### 29 Segmental information

The Company has defined its operations into the following operating segments: (i) Terminals and Pipelines, (ii) Environmental Services, (iii) Truck Transportation, (iv) Propane and NGL Marketing and Distribution, (v) Processing and Wellsite Fluids and (vi) Marketing.

**Terminals and Pipelines** include fee-based storage and terminalling services and tariff-based pipeline services for crude oil, condensate and refined products. The Company owns and operates major storage terminals located at Edmonton and Hardisty, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin; pipelines, which are connected to the Hardisty Terminal; and injection stations, which are located in the United States.

**Environmental Services** includes the provision of environmental and production services such as emulsion treating, water disposal services and oilfield waste management, exploration support services and accommodation facilities to the oil and gas industry.

**Truck Transportation** includes provision of hauling services for crude oil, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids for customers in Western Canada and the United States.

**Propane and NGL Marketing and Distribution** includes an industrial propane distribution operation and a wholesale business that includes wholesale propane distribution and an NGL marketing business. The industrial operation sells propane to oil and gas, commercial and residential customers, while the wholesale operations sell to larger customers who are not usually end users of the product.

**Processing and Wellsite Fluids** includes the refining of crude oil and marketing of a variety of products, including road asphalt, roofing flux, frac oils, light and heavy straight run distillates and tops.

**Marketing** includes, purchasing, selling, storing and blending of crude oil and condensate, providing aggregation services to producers and earning margins through quality or time-based arbitrage opportunities.

These operating segments of the Company have been derived because they are the segments (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to each segment and assess its performance; and (c) for which discrete financial information is available. No operating segments were aggregated to arrive at the reportable segments.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

Inter-segmental transactions are eliminated upon consolidation. No margins are recognized on inter-segmental transactions.

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company's consolidated financial statements.

Year ended December 31, 2014	Terminals & Pipelines	Environmental Services	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
<b>Statement of operations</b>								
Revenue - external and inter-segmental .....	\$ 157,969	\$ 431,153	\$ 557,735	\$ 1,352,741	\$ 667,793	\$ 7,005,045	\$ -	\$ 10,172,436
Revenue - inter- segmental .....	(60,869)	(62,243)	(62,645)	(162,105)	(193,022)	(1,058,023)	-	(1,598,907)
Revenue - external .....	97,100	368,910	495,090	1,190,636	474,771	5,947,022	-	8,573,529
Segment profit .....	116,524	100,273	83,178	70,271	51,675	65,180	-	487,101
Depreciation of property, plant and equipment.	33,667	54,901	37,405	14,157	12,346	271	2,187	154,934
Amortization of intangible assets .....	1,957	24,318	13,039	7,374	4,985	622	2,696	54,991
General and administrative .....	-	-	-	-	-	-	37,385	37,385
Stock based compensation .....	-	-	-	-	-	-	13,977	13,977
Corporate foreign exchange gain .....	-	-	-	-	-	-	(3,912)	(3,912)
Interest expense .....	-	-	-	-	-	-	67,598	67,598
Interest income .....	-	-	-	-	-	-	(832)	(832)
Foreign exchange loss on long-term debt .....	-	-	-	-	-	-	35,431	35,431
Income tax provision .....	-	-	-	-	-	-	35,588	35,588
Net income .....	\$ 80,900	\$ 21,054	\$ 32,734	\$ 48,740	\$ 34,344	\$ 64,287	\$(190,118)	\$ 91,941

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

Year ended December 31, 2013	Terminals & Pipelines	Environmental Services	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
<b>Statement of operations</b>								
Revenue - external and inter-segmental .....	\$ 132,144	\$ 325,059	\$ 532,490	\$1,151,206	\$ 611,097	\$ 5,580,040	\$ -	\$ 8,332,036
Revenue - inter- segmental .....	(50,884)	(24,836)	(56,155)	(160,500)	(174,275)	(924,717)	-	(1,391,367)
Revenue - external.....	81,260	300,223	476,335	990,706	436,822	4,655,323		6,940,669
Segment profit.....	95,613	83,094	83,674	62,277	48,720	83,004	-	456,382
Depreciation of property, plant and equipment.	26,503	42,820	36,146	10,337	15,838	263	1,947	133,854
Amortization of intangible assets .....	2,011	22,646	12,541	6,296	3,541	678	2,490	50,203
General and administrative .....	-	-	-	-	-	-	34,664	34,664
Stock based compensation.....	-	-	-	-	-	-	8,271	8,271
Corporate foreign exchange gain .....	-	-	-	-	-	-	(4,226)	(4,226)
Interest expense .....	-	-	-	-	-	-	53,458	53,458
Gain on financial instruments relating to interest expense.....	-	-	-	-	-	-	(18,252)	(18,252)
Interest income .....	-	-	-	-	-	-	(471)	(471)
Foreign exchange loss on long-term debt.....	-	-	-	-	-	-	19,951	19,951
Debt Extinguishment.....	-	-	-	-	-	-	38,209	38,209
Income tax provision.....	-	-	-	-	-	-	36,905	36,905
Net income (loss) .....	\$ 67,099	\$ 17,628	\$ 34,987	\$ 45,644	\$ 29,341	\$ 82,063	\$ (172,946)	\$ 103,816

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

	December 31			
	2014		2013	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Terminals and Pipelines.....	\$ 224,401	\$ 1,971	\$ 105,061	\$ 2,276
Environmental Services.....	76,761	1,281	59,213	978
Truck Transportation.....	42,469	3,670	51,146	2,356
Propane & NGL Marketing & Distribution.....	98,060	14,251	12,930	462
Processing & Wellsite Fluids .....	20,065	77	8,083	109
Corporate & other .....	9,568	12,196	2,028	2,314
	<u>\$ 471,324</u>	<u>\$ 33,446</u>	<u>\$ 238,461</u>	<u>\$ 8,495</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### Geographic Data

Based on the location of the end user, approximately 18% and 21% of revenue was from customers in the United States for the year ended December 31, 2014 and 2013, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 27% and 32% in the United States at December 31, 2014 and 2013, respectively.

### 30 Subsequent Events

On January 31, 2015, the Company acquired all of the issued and outstanding shares of Littlehawk Enterprises Ltd. ("Littlehawk") for approximately \$8.2 million, subject to the final purchase price adjustments. Littlehawk is a private Canadian company which operates hydrovac units that specialize in hydro excavation, pressure testing and water hauling for the construction and energy industries. The initial accounting for the acquisition is not complete and is pending the final assessment of working capital in accordance with the acquisition date balance sheet at January 31, 2015, as well as determining fair value of identifiable assets acquired and liabilities assumed on the acquisition date.

On March 3, 2015, the Company announced that the Board declared a quarterly dividend of \$0.32 cents per common share for the quarter ending March 31, 2015 on its outstanding common shares. The common share dividend is payable on April 17, 2015 to shareholders of record at the close of business on March 31, 2015.

### 31 Principal subsidiaries

The Company had the following subsidiaries as at December 31, 2014:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares owned by the Company
A&A Tank Truck Co.	USA	Trucking and Waste Disposal	100%
All-Clean Fluids and Filtration Services Ltd.	Canada	Oil and Drilling Fluids	100%
B.E.G. Liquid Mud Services Corp.	USA	Oil & Gas Support Services	100%
Cal-Gas Inc.	Canada	Industrial propane	100%
Canwest Propane Partnership	Canada	Industrial propane	100%
Canwest Propane ULC	Canada	Industrial propane	100%
Chief Hauling Contractors ULC	Canada	Trucking Services	100%
GEP ULC	Canada	Trucking and Storage	100%
Gibson (U.S) Acquisition Corp.	USA	Holding Company	100%
Gibson (U.S) Finco Corp.	USA	Holding Company	100%
Gibson (U.S) Holdco Corp.	USA	Holding Company	100%
Gibson Energy (US) Inc.	USA	Wholesale petroleum products	100%
Gibson Energy Inc.	Canada	Holding Company	100%
Gibson Energy Marketing , LLC	USA	Wholesale petroleum products	100%
Gibson Energy Partnership	Canada	Trucking and Storage	100%
Gibson Energy Sask Ltd.	Canada	Trucking and Storage	100%
Gibson Energy ULC	Canada	Holding Company	100%
Gibson Energy, LLC	USA	Transportation	100%
Gibson Energy ULC Pension Plan	Canada	Pension Fund	100%
Gibson Finance Ltd.	Canada	Holding Company	100%
Gibson Gas Liquids Partnership (Alberta)	Canada	Wholesale propane	100%
Gibson Gas Liquids ULC	Canada	Wholesale propane	100%
Gibson GCC Inc.	Canada	Inactive	100%

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares owned by the Company
Gibson Offshore, LLC.	USA	Oil & Gas Support Services	100%
Griswold Management, Inc.	USA	Inactive	100%
Industrial Lift Truck & Equipment Co, Inc.	USA	Oil & Gas Support Services	100%
Keeton Services, Inc.	USA	Oil & Gas Support Services	100%
Link Petroleum Inc.	USA	Wholesale propane	100%
Link Petroleum Services Ltd.	Canada	Inactive	100%
Moose Jaw Refinery Partnership	Canada	Fluids and refining	100%
Moose Jaw Refinery ULC	Canada	Fluids and refining	100%
OMNI Energy Seismic Services, LLC	USA	Oil & Gas Seismic Services	100%
OMNI Energy Services Corp.	USA	Oil & Gas Support Services	100%
OMNI Energy Transportation Corp	USA	Oil & Gas Support Services	100%
OMNI Labor Corporation	USA	Inactive	100%
OMNI Properties Corp.	USA	Inactive	100%
Plato Services Partnership	Canada	Waste Disposal Services	50%
Preheat, Inc.	USA	Oil & Gas Support Services	100%
Rig Tools, Inc.	USA	Oil & Gas Support Services	100%
Stittco Energy Ltd.	Canada	Industrial propane	100%
Stittco Utilities Man Ltd	Canada	Industrial propane	100%
Stittco Utilities NWT Ltd	Canada	Industrial propane	100%
Taylor Transfer Services, LLC	USA	Transportation	100%
TPG Leasing, LLC	USA	Rental and Leasing	100%
TPG Transport, LLC	USA	Transportation	100%
Trussco, Inc.	USA	Oil & Gas Support Services	100%

# CORPORATE INFORMATION

## HEAD OFFICE

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Calgary, AB Canada  
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Phone: (403) 206-4000  
Fax: (403) 206-4001  
Website: [www.gibsons.com](http://www.gibsons.com)

## AUDITORS

PricewaterhouseCoopers LLP

## BANKERS

Royal Bank of Canada  
JPMorgan Chase Bank, N.A.

## LEGAL COUNSEL

Bennett Jones LLP  
Latham & Watkins LLP

## TRUSTEE, REGISTRAR & TRANSFER AGENT

Computershare Trust  
Company of Canada  
Calgary, Alberta

## STOCK EXCHANGE

Toronto Stock Exchange  
Trading Symbol: GEI

## INVESTOR RELATIONS & MEDIA

Tammi Price  
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Amanda Condie  
*Manager, Communications*  
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## MANAGEMENT

A. Stewart Hanlon  
*President & Chief Executive Officer*

Donald A. Fowlis  
*Chief Financial Officer*

Brian J. Recatto  
*President U.S. Operations*

Douglas P. Wilkins  
*Chief Commercial Officer*

Richard M. Wise  
*Chief Operating Officer*

Rodney J. Bantle  
*Senior Vice President, Truck Transportation*

Stephen L. Bart  
*Senior Vice President, Terminals & Pipelines*

Sean W. Duffee  
*Senior Vice President, Marketing & Commercial Development*

Warren Osatiuk  
*Senior Vice President, Refining*

Samuel van Aken  
*Senior Vice President, Propane Marketing & Distribution*

## DIRECTORS

James M. Estey  
*Chairman of the Board*

James J. Cleary

A. Stewart Hanlon

Donald R. Ingram

Marshall L. McRae

Mary Ellen Peters

Clayton H. Woitas

## FORWARD-LOOKING STATEMENTS

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

With respect to forward-looking statements contained in this annual report, assumptions have been made regarding, among other things:

- future growth in worldwide demand for crude oil and petroleum products;
- crude oil prices supporting increased production and services in North America, including the Canadian oil sands and off-shore North America, including the Gulf of Mexico;
- fluctuations in commodity prices, including crude oil prices, and supply and demand trends, due to factors beyond the Company's control;
- no material defaults by the counterparties to agreements with the Company;
- the Company's ability to obtain qualified personnel, owner-operators, lease operators and equipment in a timely and cost-efficient manner;
- the regulatory framework governing taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business;
- operating costs;
- future capital expenditures to be made by the Company;
- the Company's ability to obtain financing for its capital programs on acceptable terms;
- the Company's future debt levels and ratings on the Company's debt;
- the impact of increasing competition on the Company.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties including, but not limited to, the risks described in "Risk Factors" and "Forward-Looking Statements" included in the Company's AIF dated March 3, 2015 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).



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