# Gibson Energy Inc.

Consolidated Financial Statements
For the year ended December 31, 2012
(in thousands of Canadian dollars)

March 5, 2013

## 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, 2012 and December 31, 2011, the consolidated statement of operations, comprehensive income (loss), 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.

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**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, 2012 and December 31, 2011 and its financial performance and cash flows for the years ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Accountants**

# Gibson Energy Inc.
## Consolidated Balance Sheet

(tabular amounts in thousands of Canadian dollars)

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 61,026 | $ 64,810 |
| Trade and other receivables (note 6) | 484,843 | 394,980 |
| Inventories (note 7) | 151,458 | 179,959 |
| Income taxes receivable | 5,401 | 55,511 |
| Prepaid expenses and other assets | 17,584 | 10,340 |
| Net investment in finance leases (note 8) | 549 | 314 |
| Total current assets | 720,861 | 705,914 |
| **Non-current assets** | | |
| Property, plant and equipment (note 9) | 1,038,784 | 789,091 |
| Long-term prepaid expenses and other assets (note 10) | 5,894 | 13,212 |
| Net investment in finance leases (note 8) | 78,130 | 43,528 |
| Deferred income tax assets (note 11) | 9,060 | 8,968 |
| Intangible assets (note 12) | 234,438 | 129,915 |
| Goodwill (note 13) | 709,358 | 513,747 |
| Total non-current assets | 2,075,664 | 1,498,461 |
| **Total assets** | $ 2,796,525 | $ 2,204,375 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Credit facilities (note 14) | $ 31,837 | $ - |
| Trade payables and accrued charges (note 15) | 467,224 | 444,785 |
| Dividends payable (note 19) | 31,232 | 23,362 |
| Deferred revenue | 1,499 | 8,021 |
| Income taxes payable | 3,410 | 830 |
| Current portion of long-term debt (note 16) | 6,467 | 6,611 |
| Total current liabilities | 541,669 | 483,609 |
| **Non-current liabilities** | | |
| Long-term debt (note 16) | 599,677 | 620,678 |
| Provisions (note 17) | 111,197 | 66,471 |
| Other long-term liabilities (note 18) | 31,032 | 38,011 |
| Deferred income tax liabilities (note 11) | 206,116 | 142,385 |
| Total non-current liabilities | 948,022 | 867,545 |
| Total liabilities | 1,489,691 | 1,351,154 |
| **Equity** | | |
| Share capital (note 19) | 1,543,149 | 1,082,990 |
| Contributed surplus | 11,297 | 21,240 |
| Accumulated other comprehensive loss | (9,166) | (3,504) |
| Deficit | (238,446) | (247,505) |
| Total equity | 1,306,834 | 853,221 |
| **Total liabilities and equity** | $ 2,796,525 | $ 2,204,375 |

**Commitments and contingencies** (note 20)

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Operations

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

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Revenue (note 21) | $ 4,913,029 | $ 5,072,031 |
| Cost of sales (note 22, 23 and 29) | 4,707,720 | 4,917,905 |
| Gross profit | 205,309 | 154,126 |
| General and administrative expenses (note 22 and 23) | 40,469 | 38,726 |
| Gain on sale of Edmonton North Terminal (note 9) | - | (20,370) |
| Other operating income (note 24) | (8,367) | (3,711) |
| **Income from operating activities** | 173,207 | 139,481 |
| Loss (income) from investment in associates | 12 | (3,509) |
| Loss on sale of investment in associate | 34 | - |
| Gain on remeasurement of interest in equity investment (note 5) | - | (16,900) |
| Interest expense | 43,655 | 69,038 |
| Loss (gain) on financial instruments relating to interest expense (note 29) | (4,247) | 11,475 |
| Interest income | (645) | (606) |
| Foreign exchange loss (gain) on long-term debt (note 16) | (13,915) | 7,932 |
| Debt extinguishment costs (note 16) | - | 166,056 |
| **Income (loss) before income taxes** | 148,313 | (94,005) |
| Income tax provision (recovery) (note 11) | 32,127 | (31,400) |
| **Net income (loss)** | $ 116,186 | $ (62,605) |
| **Earnings (loss) per share (note 25)** | | |
| Basic | $ 1.13 | $ (0.88) |
| Diluted | $ 1.10 | $ (0.88) |

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Comprehensive Income (Loss)

(tabular amounts in thousands of Canadian dollars)

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| **Net income (loss)** | $ 116,186 | $ (62,605) |
| **Other comprehensive income (loss)** | | |
| Cumulative translation adjustment | (5,662) | 3,263 |
| Actuarial loss on post employment benefit obligation, net of tax | (1,053) | (1,064) |
| **Other comprehensive income (loss), net of tax** | (6,715) | 2,199 |
| **Comprehensive income (loss)** | $ 109,471 | $ (60,406) |

See accompanying notes

# Gibson Energy Inc.
## Consolidated Statement of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

| | Share capital | Contributed surplus | Accumulated other comprehensive income (loss) | Deficit | Total Equity |
|---|---|---|---|---|---|
| **Balance – January 1, 2011** | $ 664,724 | $ 13,586 | $ (6,767) | $ (126,735) | $ 544,808 |
| Net loss | - | - | - | (62,605) | (62,605) |
| Other comprehensive income (loss), net of tax | - | - | 3,263 | (1,064) | 2,199 |
| Comprehensive income (loss) | | | 3,263 | (63,669) | (60,406) |
| Issuance of common shares less issuance costs, net of tax (note 19) | 477,986 | - | - | - | 477,986 |
| Employee share options: | | | | | |
| Value of services recognized | - | 7,699 | - | - | 7,699 |
| Proceeds from exercise of stock options (note 19) | 4,114 | - | - | - | 4,114 |
| Cash settlements of stock options | - | (45) | - | - | (45) |
| Issuance of shares in connection with a business combination (note 5) | 45,999 | - | - | - | 45,999 |
| Issuance of common shares in connection with the Dividend Reinvestment Program (note 19) | 17,235 | - | - | - | 17,235 |
| Dividends on common shares | - | - | - | (49,570) | (49,570) |
| Dividends on preferred shares | 7,531 | - | - | (7,531) | - |
| Cancellation of preferred shares on Reorganization | (134,599) | - | - | - | (134,599) |
| **Balance – December 31, 2011** | $ 1,082,990 | $ 21,240 | $ (3,504) | $ (247,505) | $ 853,221 |
| Net income | - | - | - | 116,186 | 116,186 |
| Other comprehensive loss, net of tax | - | - | (5,662) | (1,053) | (6,715) |
| Comprehensive income (loss) | | | (5,662) | 115,133 | 109,471 |
| Issuance of common shares less issuance costs, net of tax (note 19) | 390,229 | - | - | - | 390,229 |
| Employee share options: | | | | | |
| Value of services recognized | - | 3,856 | - | | 3,856 |
| Proceeds from exercise of stock options (note 19) | 18,576 | - | - | - | 18,576 |
| Reclassification of contributed surplus on exercise of stock option and other stock awards | 13,799 | (13,799) | - | - | - |
| Issuance of common shares in connection with the Dividend Reinvestment Program (note 19) | 37,555 | - | - | - | 37,555 |
| Dividends on common shares | - | - | - | (106,074) | (106,074) |
| **Balance – December 31, 2012** | $ 1,543,149 | $ 11,297 | $ (9,166) | $ (238,446) | $1,306,834 |

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Cash Flows

(tabular amounts in thousands of Canadian dollars)

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Income from operating activities | $ 173,207 | $ 139,481 |
| Items not affecting cash | | |
| Depreciation of property, plant and equipment (note 22) | 91,972 | 69,517 |
| Amortization of intangible assets (note 22) | 34,639 | 31,000 |
| Stock based compensation (note 23) | 3,856 | 7,775 |
| Gain on sale of assets | (1,803) | (22,163) |
| Other | (851) | (1,655) |
| Net loss (gain) on fair value movement of financial instruments | 1,080 | (1,728) |
| Changes in items of working capital | | |
| Trade and other receivables | (29,518) | (40,562) |
| Inventories | 36,727 | 17,971 |
| Other current assets | (1,200) | (1,979) |
| Trade payables and accrued charges | (19,850) | 56,587 |
| Deferred revenue | (6,509) | (46,680) |
| Income taxes received (paid) | 27,149 | (247) |
| Net cash provided by operating activities | 308,899 | 207,317 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (168,877) | (134,721) |
| Purchase of intangible assets | (5,502) | (4,544) |
| Proceeds from sale of associate | 596 | - |
| Proceeds on sale of assets | 4,119 | 61,187 |
| Acquisitions, net of cash acquired (note 5) | (466,381) | (5,802) |
| Net cash used in investing activities | (636,045) | (83,880) |
| **Financing activities** | | |
| Net proceeds from issuance of common shares (note 19) | 385,906 | 471,201 |
| Payment of shareholder dividends | (98,204) | (26,208) |
| Proceeds from Dividend Reinvestment Program (note 19) | 37,555 | 17,235 |
| Interest paid | (37,928) | (74,574) |
| Interest received | 637 | 606 |
| Proceeds from exercise of stock options | 18,576 | 4,114 |
| Repayment of long-term debt (note 16) | (669,361) | (764,152) |
| Proceeds from long-term debt, net of debt discount (note 16) | 664,535 | 629,343 |
| Payment of debt issue and financing costs | (10,493) | (17,401) |
| Payment of debt extinguishment costs (note 16) | - | (128,797) |
| Repayment of credit facilities (note 14) | (98,887) | (152,500) |
| Proceeds from credit facilities (note 14) | 130,819 | 109,000 |
| Purchase of warrant (note 19) | - | (134,599) |
| Repayment of finance lease liabilities | (328) | - |
| Cash settlement of stock options | - | (121) |
| Net cash provided by (used in) financing activities | 322,827 | (66,853) |
| **Effect of exchange rate on cash and cash equivalents** | 535 | 1,001 |
| **Net increase (decrease) in cash and cash equivalents** | (3,784) | 57,585 |
| **Cash and cash equivalents – beginning of year** | 64,810 | 7,225 |
| **Cash and cash equivalents – end of year** | $ 61,026 | $ 64,810 |

See accompanying notes

(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) on April 21, 2011, with one common share issued to R/C Guitar Cooperatief U.A. ("Co-op"), a Dutch Co-op owned by investment funds affiliated with Riverstone Holdings LLC ("Riverstone"). The Company was formed to become the ultimate parent in the Reorganization, as defined herein. On June 15, 2011, the Company completed an Initial Public Offering (the "Offering"). Concurrent with the Offering, Gibson Energy Inc., Gibson Energy Holding ULC and 1441682 Alberta Ltd. amalgamated into one entity with the surviving entity being Gibson Energy Inc. (the "Reorganization"). The Reorganization was a common control transaction whereby Gibson Energy Inc. was accounted for using continuity of interest and, as such, Gibson Energy Inc. was considered a continuity of Gibson Energy Holding ULC. The Company's shares trade 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 SW., 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.

These consolidated financial statements were approved for issuance by the Company`s board of directors ("Board") on March 5, 2013.

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

### 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 jointly controlled entities and associates.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies. 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.

Jointly controlled entities are entities established to engage in economic activity, which the Company jointly controls with its fellow venturers. Investments in jointly controlled entities are accounted for using the proportionate consolidation method, whereby the Company's proportionate share of revenues, expenses, assets and liabilities are included in the consolidated accounts.

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity. The financial results of the Company's investment in an associate are included in the Company's results according to the equity method. Subsequent to the acquisition date, the Company's share of profits or losses of

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

associates is recognized in the statement of operations and its share of other comprehensive income (loss) of associates is included in the other comprehensive income (loss) account.

The Company assesses at each year end whether there is any objective evidence that its interests in jointly controlled entities or associates are impaired. If impaired, the carrying value is written down to its estimated recoverable amount and charged to the statement of operations.

**Foreign currency translation**

The financial statements for each of the Company's subsidiaries, jointly controlled entities and associates 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 ruling 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 in 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.

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 |

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

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

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the 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 programmes 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 life.

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 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 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 to sell and 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 to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. In determining fair value less costs to sell, 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 reversed. 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 is 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 and which are subject to insignificant risk of changes in value.

***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.

**Inventories**

Inventories are carried at the lower of average 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.

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

**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.

**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.

**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. 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

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

of operations. 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.

***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 valuation of these defined benefit plans is carried out by independent actuaries, using the projected unit credit method to calculate the defined benefit obligation. Benefit cost primarily represents the increase in the actuarial present value of the obligation for benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets. Plan assets are valued at fair value. The present value of the accumulated benefit obligation is determined by actuaries. The expected return on plan assets is based on market expectations at the beginning of the fiscal period for returns over the entire life of the benefit obligation.

Actuarial gains and losses are recognized immediately in other comprehensive income (loss).

***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 2011 Equity Incentive Plan allows for granting of stock options, restricted share units with time (RSUs) and performance (PSUs) vesting conditions and deferred share units (DSUs).

The fair value of grants made under 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 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.

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

***Termination benefit***

The Company recognizes termination benefits as 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. Revenue from 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, and costs related to transportation and inventory write downs and reversals.

**Interest**

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

(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 awards and preferred shares 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.

*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 have been determined based on fair value less cost to sell 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 exceed the estimated accrual, if the selected methods of remediation do not adequately reduce the contaminates 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

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

assets, the existence of active markets, similar exposure to market risks, shared infrastructures and the way in which management monitors the operations.

*Investment in finance lease*

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 coveys 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 has 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 quantities factors of the credit agreement before and after the refinancing, replacement or re-pricing.

## 4 Changes in accounting policies and disclosures

***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, 2012. These amendments did not have any material impact on the Company's consolidated financial statements.

- IFRS 7 Financial Instruments: Disclosures ("IFRS 7") was amended to provide additional disclosure on the transfer of financial assets including the possible effects of any residual risks that the transferring entity retains.
- IAS 12 Income Taxes ("IAS 12") - IAS 12 was amended to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduced a presumption that an entity will assess whether the carrying amount of an asset will be recovered through the sale of the asset.

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

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

IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar arrangements. This amendment to IFRS 7 is effective for annual periods beginning on or after January 1, 2013, with retrospective application. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39, "Financial Instruments: Recognition and Measurements'' that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

IFRS 10, Consolidated financial statements (''IFRS 10'') builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 11, Joint Arrangements ("IFRS 11") addresses joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities (''IFRS 12'') is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 13, Fair Value Measurement ("IFRS 13") provides for a consistent and less complex definition of fair value, established a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. The adoption of this standard is not expected to have a material impact on the Company's financial position and results of operations.

IAS 1, Presentation of Financial Statements ("IAS 1") was amended and requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements.

IAS 19, Employee Benefits ("IAS 19") was amended to eliminate the option to defer the recognition of actuarial gains and losses, commonly known as the corridor approach and requires an entity to recognize actuarial gains and losses in Other Comprehensive Income ("OCI") immediately. In addition, the net change in the defined benefit liability or asset must be disaggregated into three components: service cost, net interest and remeasurements. Service cost and net interest will continue to be recognized in net earnings while remeasurements, which include changes in estimates or the valuation of plan assets, will be recognized in OCI. Furthermore, entities will be required to calculate net interest on the net defined benefit liability or asset using the same discount rate used to measure the defined benefit obligation. The amendment also enhances financial statement disclosures. This amended standard is effective for annual periods beginning on or after January 1, 2013, with modified retrospective application. Earlier adoption is permitted. Based on the Company's preliminary assessment when applying the amendments to IAS 19 for the first time for the year ending December 31, 2013, the deficit balance on January

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

1, 2012 will be decreased by approximately $0.6 million with corresponding effect on the retirement benefit obligation primarily relating to the immediate recognition of unamortized past service cost.

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 amendment to IAS 32 is effective for annual periods beginning on or after January 1, 2014, with retrospective application. The Company is currently evaluating the impact of adopting this amendment on its consolidated financial statements.

The annual improvements process addresses issues in the 2009 - 2011 reporting cycle including changes to IFRS 1, IAS 1, IAS 16, 'Property plant and equipment', IAS 32, IAS 34, 'Interim financial reporting'. These improvements are effective for annual periods beginning on or after January 1, 2013, with retrospective application. The adoption of these amendments is not expected to have a material impact on the Company's consolidated financial statements.

## 5 Business combinations

***Parent holding company of OMNI Energy Services Corp. ("OMNI")***

On October 31, 2012, the Company acquired all of the issued and outstanding common stock of OMNI for total cash consideration of $439.7 million including final closing adjustments. OMNI has operations in many major oil and liquids focused areas in the United States with a focus on environmental and production-related activities.

Acquisition-related costs of $2.8 million have been charged to general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2012.

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

| | Fair Value |
|---|---|
| Cash and cash equivalents | $ 6,577 |
| Trade and other receivables | 51,978 |
| Inventories | 8,835 |
| Income taxes receivable | 8,228 |
| Prepaid and other assets | 4,159 |
| Property, plant and equipment | 150,849 |
| Long-term prepaid expenses and other assets | 745 |
| Goodwill | 188,414 |
| Intangible assets (1) | 125,874 |
| Trade payables and accrued charges | (34,296) |
| Income taxes payable | (760) |
| Provisions | (9,930) |
| Other long-term liabilities | (4,004) |
| Deferred income tax liabilities | (56,972) |
| Net assets acquired | $ 439,697 |

*(1) Consists of customer relationships of $111.8 million, brands of $8.5 million, license and permits of $3.1 million, technology assets of $1.0 million, non-compete agreements of $0.3 million and software of $1.2 million.*

The goodwill arising on the acquisition is attributable to the Company's broadened footprint in many major oil and liquids focused basins in the United States, the expected growth in the environmental services business in North America, the expansion upon recent acquisitions and new customers in the United States to whom the Company can promote the rest of the Gibson product suite. The goodwill is allocated to the Environmental Services segment, a new operating segment in the year ended December 31, 2012.

The fair value of trade receivables is $51.9 million, which approximates its gross contractual amount.

From the date of acquisition to December 31, 2012, the acquisition contributed revenue of $37.9 million and income before income taxes of $0.8 million.

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

***Northern Truck Services 1994 Ltd. and All Fluids & Filtration Services Ltd. (collectively "Northern Trucking")***

On October 1, 2012, the Company acquired all of the issued and outstanding common shares of Northern Trucking for total cash consideration of $23.2 million. Northern Trucking provides fluid hauling, filtration and completion products to drilling and production companies in Northern Alberta and Northeastern British Columbia.

Acquisition-related costs of $0.1 million have been charged to general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2012.

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

| | Fair Value |
|---|---|
| Cash and cash equivalents | $ 1,922 |
| Trade and other receivables | 4,619 |
| Inventories | 378 |
| Prepaid expenses and other assets | 143 |
| Property, plant and equipment | 14,481 |
| Goodwill | 4,043 |
| Intangible assets (1) | 2,313 |
| Trade payables and accrued charges | (1,780) |
| Deferred income tax liabilities | (2,837) |
| Net assets acquired | $ 23,282 |

*(1) Consists of customer relationships of $1.7 million and non-compete agreements of $0.6 million.*

The goodwill arising on the acquisition of Northern Trucking is attributable to Gibson's ability to take advantage of the growth in the fluid hauling market, with an additional opportunity to support the sales and hauling of Gibson's frac fluids and mud products from its Sexsmith facility. The goodwill is allocated to the Truck Transportation segment.

The fair value of trade receivables is $4.6 million, which approximates its gross contractual amount.

From the date of acquisition to December 31, 2012, the acquisition contributed revenue of $7.1 million and income before income taxes of $1.1 million.

***Other acquisitions***

The Company completed the following individually immaterial business combinations during the year ended December 31, 2012:

| Name | Acquisition date | Total consideration |
|---|---|---|
| Gator Propane Services Inc. ("Gator") | November 27, 2012 | $ 3,745 |
| Jalbert Enterprises Ltd ("Jalbert") | September 1, 2012 | 2,240 |
| Mobile Propane Services Inc. ("Mobile Propane") | July 24, 2012 | 5,312 |
| Fricken Fracken Water Hauling Ltd. ("Fricken Fracken") | May 1, 2012 | 4,750 |
| | | $ 16,047 |

Acquisition-related costs of $0.1 million have been charged to general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2012.

The total consideration paid was comprised of the following:

| | |
|---|---|
| Cash | $ 14,497 |
| Contingent consideration (1) | 1,550 |
| Total consideration | $ 16,047 |

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

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

| | Fair value |
|---|---|
| Cash and cash equivalents | $ 351 |
| Trade and other receivables | 1,105 |
| Inventories | 92 |
| Prepaid expenses and other assets | 186 |
| Property, plant and equipment | 5,282 |
| Goodwill | 5,274 |
| Intangible assets (2) | 6,806 |
| Trade payables and accrued charges | (556) |
| Deferred income tax liabilities | (2,493) |
| Total | $ 16,047 |

*(1) Under the agreements, the Company is required to pay the former owners of the acquired entities certain cash amounts which are dependent on the achievement of specified gross margins. The maximum undiscounted amount of the contingent consideration under these agreements approximates $1.6 million. The Company has recorded the full amount of the contingent consideration as it expects that the specified gross margin thresholds will be achieved.*

*(2) Consists of customer relationships of $2.6 million and non-compete agreements of $4.2 million.*

Gator, Jalbert and Mobile Propane provide retail propane services to the construction, residential and commercial sectors in Saskatchewan. Goodwill of $3.6 million arising from the acquisitions of Gator, Jalbert and Mobile Propane is attributable to the expected increase in the Company's share of the growing Southeast Saskatchewan marketplace and expected synergies with its existing propane operations within the Propane and NGL Marketing and Distribution segment. The goodwill for these acquisitions is allocated to the Propane and NGL marketing and distribution segment.

Fricken Fracken provides water hauling and transportation services. Goodwill of $1.7 million arising from the acquisition of Fricken Fracken is attributable to the expected expansion of the Company's market presence in west central Saskatchewan and expected synergies with the Company's custom treating and terminal operations. The goodwill arising on this acquisition is allocated to the Truck Transportation segment.

The fair value of trade receivables is $1.1 million, which approximates its gross contractual amount.

As a result of the integration of the acquired entities into the operations of the Company, it is impractical to determine the impact on revenue and net income before income taxes for the year ended December 31, 2012. However, management estimates that the impact would not have been material.

If all of the acquisitions completed by the Company during the year ended December 31, 2012 had occurred on January 1, 2012, the Company estimates that it would have reported combined revenue of $5,161.6 million and net income before income taxes of $159.6 million for the year ended December 31, 2012.

***Palko Environmental Ltd.***

On December 8, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Palko Environmental Ltd. ("Palko"), not already owned by the Company, for total consideration, of $51.8 million. Prior to the acquisition, the Company held a 38.9% ownership interest in Palko, which was accounted for under the equity method of accounting. The fair value of the 38.9% ownership interest on the acquisition date was determined to be $29.4 million. As a result of remeasuring the equity interest to fair value, the Company recorded a gain of $16.9 million in the statement of operations for the year ended December 31, 2011. This acquisition expanded the Company's Canadian custom treating and terminal operations to include water disposal services and oilfield waste management.

Acquisition related costs of $1.0 million have been charged to general and administrative expenses in the statement of operations in the year ended December 31, 2011.

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

The total consideration paid was comprised of the following:

| | |
|---|---|
| Cash | $ 5,789 |
| Issuance of common shares | 45,999 |
| Consideration for equity interest held prior to the acquisition | 9,693 |
| Total consideration | 61,481 |
| Income from equity interest held prior to the acquisition | 2,835 |
| Gain on remeasurement of equity interest held prior to the acquisition | 16,900 |
| Total | $ 81,216 |

The net assets acquired have been recorded as follows:

| | **Fair Value** |
|---|---|
| Cash and cash equivalents | $ 756 |
| Property, plant and equipment | 85,629 |
| Trade and other receivables | 6,822 |
| Inventories | 386 |
| Prepaid expenses and other assets | 83 |
| Goodwill | 16,065 |
| Intangible assets (1) | 3,333 |
| Trade payables and accrued charges | (7,602) |
| Long-term debt | (17,538) |
| Provisions | (3,724) |
| Other long-term liabilities | (625) |
| Deferred income tax liabilities | (2,369) |
| Net assets acquired | $ 81,216 |

*(1) Consists of customer relationships of $3.3 million.*

The fair value of the common shares issued as part of the consideration paid for Palko, was based on the Company's share price of $19.30 on December 8, 2011.

The goodwill is attributable to the synergies expected to be achieved from integrating Palko with the Company's other custom treating and terminal operations and is allocated to the Terminals and Pipelines segment.

The fair value of trade and other receivables includes gross contractual amounts of $6.9 million, of which $0.3 million were expected to be uncollectible at the acquisition date.

From the date of acquisition to December 31, 2011, the acquisition of Palko contributed revenue of $1.3 million, and net income of $0.1 million. If the acquisition of Palko had been completed on January 1, 2011, the Company would have reported additional revenue of $18.6 million and the net loss would have decreased by $1.4 million for the year ended December 31, 2011.

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

## 6 Trade and other receivables

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Trade receivables | $ 469,751 | $ 384,936 |
| Allowance for doubtful accounts | (5,435) | (4,724) |
| Trade receivables - net | 464,316 | 380,212 |
| Derivative financial instruments (note 29) | 5,520 | 2,613 |
| Deposits held as collateral | 1,337 | 1,754 |
| Broker accounts receivable | 5,371 | 1,040 |
| GST receivable | 3,495 | 6,388 |
| Other | 4,804 | 2,973 |
| Total trade and other receivables | $ 484,843 | $ 394,980 |

**Allowance for doubtful accounts**

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Opening balance | $ 4,724 | $ 1,627 |
| Additional allowances | 3,578 | 3,062 |
| Receivables written off as uncollectible | (2,688) | (51) |
| Recoveries | (120) | - |
| Effect of changes in foreign exchange rates | (59) | 86 |
| Closing balance | $ 5,435 | $ 4,724 |

## 7 Inventories

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Crude oil | $ 79,407 | $ 96,672 |
| Diluent | 3,656 | 6,807 |
| Asphalt | 23,588 | 36,107 |
| Natural gas liquids | 25,103 | 28,027 |
| Wellsite fluids and distillate | 8,584 | 10,482 |
| Spare parts and other | 11,120 | 1,864 |
| | $ 151,458 | $ 179,959 |

The cost of the inventory sold included in cost of sales was $3,954.0 million and $4,286.2 million for the year ended December 31, 2012 and 2011, respectively. There were no inventory write-downs in the years ended December 31, 2012 and 2011.

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

## 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, 2012 | December 31, 2011 |
|---|---|---|
| Total minimum lease payments receivable | $ 335,229 | $ 222,068 |
| Residual value | 29,881 | 18,157 |
| Unearned income | (286,431) | (196,383) |
| | 78,679 | 43,842 |
| Less: current portion | 549 | 314 |
| Net investment in finance lease: non-current portion | $ 78,130 | $ 43,528 |

The minimum lease receivables are expected to be as follows:

| | |
|---|---|
| 2013 | $ 20,260 |
| 2014 | 20,260 |
| 2015 | 20,260 |
| 2016 | 20,260 |
| 2017 | 20,260 |
| 2018 and later | 233,929 |

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

## 9 Property, plant and equipment

| | Land & Buildings | Pipelines | Tanks | Rolling Stock | Plant, Equipment & Disposal wells | Work in Progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At January 1, 2012 | $ 76,406 | $ 100,437 | $ 236,173 | $ 214,997 | $ 292,274 | $ 51,624 | $ 971,911 |
| Additions | 6,789 | 17,734 | 15,188 | 57,462 | 15,225 | 64,298 | 176,696 |
| Additions through business combination (note 5) | 9,478 | - | 2,200 | 71,326 | 84,265 | 3,343 | 170,612 |
| Disposals | (31) | - | (454) | (5,668) | (379) | - | (6,532) |
| Transfer to net investment in finance leases (note 8) | - | - | (13,833) | - | (21,338) | - | (35,171) |
| Reclassifications | 2,105 | 10,431 | 14,858 | 892 | 54,222 | (82,508) | - |
| Change in decommissioning provision (note 17) | - | 5,104 | 12,994 | - | 16,065 | - | 34,163 |
| Effect of movements in exchange rates | (49) | - | (201) | (1,749) | (689) | (16) | (2,704) |
| At December 31, 2012 | $ 94,698 | $ 133,706 | $ 266,925 | $ 337,260 | $ 439,645 | $ 36,741 | $1,308,975 |
| **Accumulated depreciation and impairment:** | | | | | | | |
| At January 1, 2012 | $ 11,540 | $ 26,624 | $ 29,318 | $ 60,916 | $ 54,422 | $ - | $ 182,820 |
| Depreciation | 4,328 | 7,853 | 13,831 | 32,216 | 33,744 | - | 91,972 |
| Disposals | (16) | - | (118) | (3,817) | (235) | - | (4,186) |
| Effect of movements in exchange rates | (3) | - | (33) | (334) | (45) | - | (415) |
| At December 31, 2012 | $ 15,849 | $ 34,477 | $ 42,998 | $ 88,981 | $ 87,886 | $ - | $ 270,191 |
| **Carrying amounts:** | | | | | | | |
| At January 1, 2012 | $ 64,866 | $ 73,813 | $ 206,855 | $ 154,081 | $ 237,852 | $ 51,624 | $ 789,091 |
| At December 31, 2012 | 78,849 | 99,229 | 223,927 | 248,279 | 351,759 | 36,741 | 1,038,784 |

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

| | Land & Buildings | Pipelines | Tanks | Rolling Stock | Plant, Equipment & Disposal wells | Work in Progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At January 1, 2011 | $ 70,006 | $ 87,247 | $ 198,412 | $ 168,404 | $ 210,614 | $ 13,088 | $ 747,771 |
| Additions | 2,400 | 3,708 | 6,801 | 49,578 | 11,498 | 69,509 | 143,494 |
| Additions through business combination (note 5) | 6,234 | 1,705 | 17,426 | 253 | 42,863 | 17,148 | 85,629 |
| Disposals | (2,927) | (150) | (614) | (4,031) | (327) | (16) | (8,065) |
| Transfer to net investment in finance leases (note 8) | - | - | (500) | - | - | (14,500) | (15,000) |
| Reclassifications | 673 | 2,307 | 11,822 | - | 18,809 | (33,611) | - |
| Impairment | - | - | (2,922) | - | - | - | (2,922) |
| Change in decommissioning provision (note 17) | - | 5,620 | 5,581 | - | 8,571 | - | 19,772 |
| Effect of movements in exchange rates | 20 | - | 167 | 793 | 246 | 6 | 1,232 |
| At December 31, 2011 | $ 76,406 | $ 100,437 | $ 236,173 | $ 214,997 | $ 292,274 | $ 51,624 | $ 971,911 |
| **Accumulated depreciation and impairment:** | | | | | | | |
| At January 1, 2011 | $ 7,855 | $ 17,499 | $ 16,808 | $ 37,355 | $ 38,499 | $ - | $ 118,016 |
| Depreciation | 3,710 | 9,125 | 13,215 | 25,084 | 16,066 | - | 67,200 |
| Disposals | (28) | - | (133) | (1,906) | (202) | - | (2,269) |
| Impairment | - | - | (605) | - | - | - | (605) |
| Effect of movements in exchange rates | 3 | - | 33 | 383 | 59 | - | 478 |
| At December 31, 2011 | $ 11,540 | $ 26,624 | $ 29,318 | $ 60,916 | $ 54,422 | $ - | $ 182,820 |
| **Carrying amounts:** | | | | | | | |
| At January 1, 2011 | $ 62,151 | $ 69,748 | $ 181,604 | $ 131,049 | $ 172,115 | $ 13,088 | $ 629,755 |
| At December 31, 2011 | 64,866 | 73,813 | 206,855 | 154,081 | 237,852 | 51,624 | 789,091 |

Additions to property, plant and equipment includes capitalization of interest of $1.9 million and $1.6 million for the year ended December 31, 2012 and 2011, respectively.

At December 31, 2012, the carrying value includes $4.4 million of assets capitalized under finance lease. There were no assets capitalized under finance lease as at December 31, 2011.

During the year ended December 31, 2011, following an inspection of a tank at the Company's refinery in Moose Jaw and an evaluation of the estimated costs to repair the tank, it was determined the tank was not suitable for future operations. Accordingly, the carrying amount of the tank was reduced to zero and an impairment loss of $2.3 million was recorded as additional depreciation. The carrying value of the asset was included within the Processing and Wellsite Fluids segment.

During the year ended December 31, 2011, the Company completed the sale of the Edmonton North Terminal for total consideration of $54.3 million, and recorded a gain of $20.4 million. As part of the total consideration received, the Company received pipeline assets valued at $0.9 million that provide access to crude oil streams within the Edmonton area and assumed obligations related to these assets. Transaction costs related to the sale of $1.4 million were expensed and are included as part of the gain on sale of Edmonton North Terminal.

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

## 10 Long-term prepaid expenses and other assets

| | December 31, 2012 | 2011 |
|---|---|---|
| Long-term prepaid expenses | $ 684 | $ 582 |
| Derivative financial instruments (note 29) | 2,476 | 9,697 |
| Other assets | 1,647 | 1,053 |
| Pension assets (note 27) | 1,087 | 1,212 |
| Equity investments | - | 668 |
| | $ 5,894 | $ 13,212 |

## 11 Income tax

The major components of income tax are as follows:

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| **Current tax provision** | | |
| Current tax on income (loss) for the year | $ 26,522 | $ 1,744 |
| Adjustments in respect of prior years | (317) | (44) |
| **Total current tax provision** | 26,205 | 1,700 |
| Deferred tax provision (recovery) | 5,113 | (33,849) |
| Origination and reversal of temporary differences | 809 | 749 |
| **Total deferred tax provision (recovery)** | 5,922 | (33,100) |
| Income tax provision (recovery) | $ 32,127 | $ (31,400) |

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

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| Income (loss) before income taxes | $ 148,313 | $ (94,005) |
| Statutory income tax rate | 25.0% | 26.5% |
| Computed income tax provision (recovery) | 37,078 | (24,911) |
| Increase (decrease) in income tax resulting from: | | |
| Gain on remeasurement of interest in equity investment | - | (4,479) |
| Income from investment in associates | - | (934) |
| Foreign exchange loss (gain) on long-term debt, net | (6,582) | 4,003 |
| Non-taxable portion of capital gain | - | (2,841) |
| Non-deductible expenses | 908 | 190 |
| Stock based compensation | 964 | 2,060 |
| Rate reduction – impact on debt extinguishment costs | - | 1,402 |
| Rate reduction due to partnership deferral | - | (3,999) |
| Non-taxable dividends | (4,794) | (3,621) |
| Other, including revisions in previous tax estimates and rate reductions | 2,568 | 733 |
| Rate differential on foreign taxes | 1,985 | 997 |
| | $ 32,127 | $ (31,400) |
| | | |
| Effective income tax rate | 21.7% | 33.4% |
| | | |
| Current | 26,205 | 1,700 |
| Deferred | 5,922 | (33,100) |
| | $ 32,127 | $ (31,400) |

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

The decrease in the statutory rate was due to lower statutory income tax rates in Canada in the current year.

The income tax recovery relating to actuarial loss on post-employment benefit obligation recognized in other comprehensive income (loss) was $0.4 million and $0.5 million for the year ended December 31, 2012 and 2011, respectively. The income tax adjustment to equity in the year ended December 31, 2012 and 2011 was $4.0 million and $7.4 million, respectively which related to the impact of the deductibility of expenses incurred during the issuance of common shares.

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred tax asset to be settled after more than 12 months | $ 9,060 | $ 5,506 |
| Deferred tax asset to be settled within 12 months | - | 3,462 |
| | 9,060 | 8,968 |
| Deferred tax liabilities: | | |
| Deferred tax liability to be settled after more than 12 months | 203,916 | 142,385 |
| Deferred tax liability to be settled within 12 months | 2,200 | - |
| | 206,116 | 142,385 |
| Deferred tax liabilities (net) | $ 197,056 | $ 133,417 |

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

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Opening balance | $ 133,417 | $ 169,436 |
| Exchange differences | (211) | (50) |
| Recognized on business combinations (note 5) | 62,302 | 2,369 |
| Income statement provision (recovery) | 5,922 | (33,100) |
| Deferred tax on asset held for sale | - | 2,719 |
| Tax credit relating to components of other comprehensive income | (351) | (546) |
| Tax credited directly to equity | (4,023) | (7,411) |
| Closing balance | $ 197,056 | $ 133,417 |

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, 2011 | $ 8,042 | $ 5,273 | $ 1,235 | $ 14,068 | $ 28,618 |
| Credited (charged) to the statement of operations | 17,686 | (650) | 1,021 | 11,678 | 29,735 |
| Deferred tax on assets held for sale | - | - | - | (2,719) | (2,719) |
| Credited to other comprehensive income | - | - | 546 | - | 546 |
| Credited directly to equity | - | - | - | 7,411 | 7,411 |
| Effect of changes in foreign exchange rates | - | - | - | 50 | 50 |
| Business combinations | 1,852 | 962 | - | - | 2,814 |
| At December 31, 2011 | $ 27,580 | $ 5,585 | $ 2,802 | $ 30,488 | $ 66,455 |
| Credited (charged) to the statement of operations | (5,309) | 1,542 | (1,091) | (7,672) | (12,530) |
| Credited to other comprehensive income | - | - | 351 | - | 351 |
| Credited directly to equity | - | - | - | 4,023 | 4,023 |
| Business combinations | - | 3,755 | - | 1,244 | 4,999 |
| Effect of changes in foreign exchange rates | - | - | - | 211 | 211 |
| At December 31, 2012 | $ 22,271 | $ 10,882 | $ 2,062 | $ 28,294 | $ 63,509 |

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

| Deferred tax liabilities | Timing of Partnership Income | Property, Plant and Equipment | Accounting and tax basis differences | Other | Total |
|---|---|---|---|---|---|
| At January 1, 2011 | $ (47,890) | $(100,085) | $ (48,989) | $ (1,090) | $ (198,054) |
| Credited (charged) to the statement of operations | (18,765) | 774 | 20,831 | 525 | 3,365 |
| Business combinations | - | (3,556) | (1,627) | - | (5,183) |
| Effect of changes in foreign exchange rates | - | - | - | - | - |
| At December 31, 2011 | (66,655) | (102,867) | (29,785) | (565) | (199,872) |
| Credited (charged) to the statement of operations | 5,269 | (7,560) | 10,027 | (1,128) | 6,608 |
| Business combinations | - | (43,625) | (23,676) | - | (67,301) |
| At December 31, 2012 | $ (61,386) | $(154,052) | $ (43,434) | $ (1,693) | $ (260,565) |

**Income tax losses carry forward**

At December 31, 2012 and December 31, 2011, the Company had losses available to offset deferred income for tax purposes of $60.3 million and $85.1 million, respectively. At December 31, 2012, the Company has $3.5 million and $56.8 million of the losses available in Canada and the United States, respectively that expire as follows:

| | |
|---|---|
| December 31, 2028 | $ 46 |
| December 31, 2029 | 132 |
| December 31, 2030 | 15,725 |
| December 31, 2031 | 37,806 |
| December 31, 2032 | 6,633 |
| | $ 60,342 |

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.

(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 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At January 1, 2012 | $ 41,425 | $ 111,093 | $ 33,336 | $ 17,923 | $ 1,600 | $ 12,775 | $ - | $ 218,152 |
| Additions | - | - | - | - | - | 5,502 | - | 5,502 |
| Additions through business combination (note 5) | 8,496 | 116,133 | - | 5,152 | 920 | 1,203 | 3,089 | 134,993 |
| Effect of movements in exchange rates | (40) | (862) | (624) | (130) | (4) | (10) | (15) | (1,685) |
| At December 31, 2012 | $ 49,881 | $ 226,364 | $ 32,712 | $ 22,945 | $ 2,516 | $ 19,470 | $ 3,074 | $ 356,962 |
| **Accumulated amortization:** | | | | | | | | |
| At January 1, 2012 | $ 13,544 | $ 50,020 | $ 7,033 | $ 11,407 | $ 1,313 | $ 4,920 | $ - | $ 88,237 |
| Amortization | 4,735 | 20,989 | 3,596 | 2,654 | 338 | 2,156 | 171 | 34,639 |
| Effect of movements in exchange rates | 1 | (109) | (114) | (127) | - | (3) | - | (352) |
| At December 31, 2012 | $ 18,280 | $ 70,900 | $ 10,515 | $ 13,934 | $ 1,651 | $ 7,073 | $ 171 | $ 122,524 |
| **Carrying amounts:** | | | | | | | | |
| At January 1, 2012 | $ 27,881 | $ 61,073 | $ 26,303 | $ 6,516 | $ 287 | $ 7,855 | $ - | $ 129,915 |
| At December 31, 2012 | 31,601 | 155,464 | 22,197 | 9,011 | 865 | 12,397 | 2,903 | 234,438 |

| | Brands | Customer relationships | Long-term Contracts | Non-compete agreements | Technology | Software | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At January 1, 2011 | $ 41,425 | $ 107,483 | $ 32,703 | $ 17,792 | $ 1,600 | $ 8,162 | $ 209,165 |
| Additions | - | - | - | - | - | 4,544 | 4,544 |
| Additions through business combination (note 5) | - | 3,268 | - | - | - | 65 | 3,333 |
| Effect of movements in exchange rates | - | 342 | 633 | 131 | - | 4 | 1,110 |
| At December 31, 2011 | $ 41,425 | $ 111,093 | $ 33,336 | $ 17,923 | $ 1,600 | $ 12,775 | $ 218,152 |
| **Accumulated amortization:** | | | | | | | |
| At January 1, 2011 | $ 9,513 | $ 33,913 | $ 3,348 | $ 5,860 | $ 883 | $ 3,309 | $ 56,826 |
| Amortization | 4,031 | 15,991 | 3,558 | 5,382 | 430 | 1,608 | 31,000 |
| Effect of movements in exchange rates | - | 116 | 127 | 165 | - | 3 | 411 |
| At December 31, 2011 | $ 13,544 | $ 50,020 | $ 7,033 | $ 11,407 | $ 1,313 | $ 4,920 | $ 88,237 |
| **Carrying amounts:** | | | | | | | |
| At January 1, 2011 | $ 31,912 | $ 73,570 | $ 29,355 | $ 11,932 | $ 717 | $ 4,853 | $ 152,339 |
| At December 31, 2011 | 27,881 | 61,073 | 26,303 | 6,516 | 287 | 7,855 | 129,915 |

(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, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Opening balance | $ 513,747 | $ 496,416 |
| Additions through business combinations (note 5) | 197,731 | 16,065 |
| Effect of changes in foreign exchange rates | (2,120) | 1,266 |
| Closing balance | $ 709,358 | $ 513,747 |

The amount of goodwill added through business combinations in the year ended December 31, 2012 and 2011 is not expected to be deductible for tax purposes.

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Terminals and Pipelines | $ 215,932 | $ 215,966 |
| Truck Transportation | 49,178 | 44,175 |
| Propane and NGL Marketing and Distribution | 95,501 | 92,387 |
| Processing and Wellsite Fluids | 117,664 | 117,664 |
| Marketing | 43,555 | 43,555 |
| Environmental Services | 187,528 | - |
| Total goodwill | $ 709,358 | $ 513,747 |

The recoverable amount of goodwill has been determined based on a fair value less cost to sell 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 and ranged from 5.7 to 11.6. For all operating segments, the fair value less cost to sell was greater than the operating segments carrying value, including goodwill. Accordingly, goodwill is not considered impaired in the years ended December 31, 2012 and 2011.

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

## 14 Credit facilities

On June 15, 2011, the Company established a revolving credit facility (the "Revolving Credit Facility") of up to U.S.$275.0 million, the proceeds of which are available to provide financing for working capital and other general corporate purposes. On May 24, 2012, through an amendment of its existing credit agreement, the Company increased the Revolving Credit Facility by U.S.$100.0 million to up to U.S.$375.0 million. The Revolving Credit Facility expires on June 15, 2016 and borrowings under the Revolving Credit Facility bear interest at a rate equal to, at the Company's option, LIBOR plus 2.5%; Base Rate plus 1.5%, Bankers Acceptance Rate plus 2.5% or Canadian Prime Rate plus 1.5%, subject to adjustment based on a change in the Company's corporate credit rating as determined by recognized credit rating agencies. In addition, the Company must pay a commitment fee of 0.5%, subject to adjustment based on a change in the Company's corporate credit rating, on the unused portion of the Revolving Credit Facility.

In the year ended December 31, 2012, the Company recorded $3.6 million of fees in prepaid expenses and other assets, in connection with the increase in the Revolving Credit Facility.

Prior to the Revolving Credit Facility, the Company had a credit facility of up to U.S. $200.0 million. In the year ended December 31, 2011, the Company terminated this credit facility and as a result, recognised unamortized financing costs of $2.9 million which were included in debt extinguishment costs.

The Company had $31.8 million drawn against the Revolving Credit Facility as at December 31, 2012 and no amounts were drawn as at December 31, 2011. The Company had issued letters of credit totalling $90.4 million and $60.5 million as at December 31, 2012 and December 31, 2011, respectively.

The Revolving Credit Facility is secured by substantially all of the Company's property and equipment, intangible assets, and current assets, including inventory and trade receivables and is guaranteed by substantially all of the Company's existing wholly owned subsidiaries.

## 15 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

| | December 31, | |
|---|---|---|
| | **2012** | **2011** |
| Trade payables | $ 356,388 | $ 319,023 |
| Accrued compensation charges | 30,156 | 26,121 |
| GST payable | 1,843 | 1,719 |
| Derivative financial instruments (note 29) | 11,790 | 6,451 |
| Broker accounts payable | 3,118 | 2,181 |
| Pension liabilities (note 27) | 1,121 | 572 |
| Interest payable | 595 | 1,935 |
| Due to Hunting (note 20) | 26,525 | 53,568 |
| Other | 35,688 | 33,215 |
| | $ 467,224 | $ 444,785 |

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

## 16 Long-term debt

Long-term debt consists of the following:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Term Loan B | $ - | $ 657,745 |
| Tranche B Term Loan | 641,835 | - |
| Unamortized debt issue costs | (24,755) | (17,809) |
| Unamortized financial instrument liability discount | (10,936) | (12,647) |
| | 606,144 | 627,289 |
| Less: current portion | 6,467 | 6,611 |
| Long-term debt: non-current portion | $ 599,677 | $ 620,678 |

On June 15, 2011, the Company entered into a secured first lien term loan facility ("Term Loan B") in the aggregate principal amount of U.S.$650.0 million. On May 24, 2012, through an amendment of its existing credit agreement, the Company replaced and re-priced its Term loan B with a U.S.$650.0 million senior secured first lien term loan facility ("Tranche B Term Loan"). The facility was re-priced to reflect a decrease in the interest rate of 0.75% and a decrease in the interest rate floor of 0.25%.

The Tranche B Term Loan has a term expiring on June 15, 2018 and is repayable in equal quarterly installments at the end of each quarter, totalling 1% per annum of the principal with the remaining balance to be paid at the end of the term. In addition, certain events may trigger incremental repayments of principal including a percentage of quarterly net excess cash flow as defined under the credit agreement, and proceeds from asset dispositions, where such proceeds are not reinvested as capital expenditures within specified time periods. As at December 31, 2012, no incremental repayments of principal have been made. The Tranche B Term Loan accrues interest at the option of the Company at a rate equal to LIBOR plus 3.75%, subject to a minimum Adjusted LIBOR interest rate floor of 1.0% or base rate plus 2.75%, subject to a minimum base rate interest rate floor of 2.0%.

Pursuant to IAS 39 "Financial instruments: Recognition and measurement", the Company is required to account for the replacement and re-pricing of the Term Loan B as debt extinguishments if it is determined that the terms changed substantially. One indication of the existence of substantially different terms is whether the cash flows have changed by more than 10%. In calculating the discounted present value of cash flows, the Company determined that the net present value of cash flows changed by less than 10%. In addition, since the terms of the old and new loan were determined not to be substantially different, the replacement and re-pricing transaction was not accounted for as a debt extinguishment. As a result, in the year ended December 31, 2012, the Company capitalized $10.1 million relating to the replacement and re-pricing that consisted of a prepayment penalty on the repayment of the Term Loan B of $6.5 million, an original issue discount of $3.3 million and other fees of $0.4 million.

In the year ended December 31, 2011, upon entering the Term Loan B and together with the Offering, the Company repaid certain loans totalling U.S.$760.0 million. As a result, the Company incurred a repayment bonus of $128.1 million and together with unamortized debt issue costs of $34.4 million were included in debt extinguishment costs in the year ended December 31, 2011.

With respect to the interest rate floor, it is considered an embedded derivative as the floor rate exceeded the market rate of interest at the time that the Term Loan B was incurred. As a result, the interest rate floor derivative was required to be separated from the carrying value of long-term debt and accounted for as a separate financial liability initially measured at fair value and marked to market at each reporting date (note 29). As a result of the replacement and re-pricing described above, the fair value of the derivative financial liability related to the interest rate floor was reduced to reflect the decrease in the LIBOR interest rate floor from 1.25% to 1.0%.

The Tranche B Term is secured by substantially all of the Company's property and equipment, intangibles and current assets, including inventory and trade receivables and is guaranteed by substantially all of the Company's existing wholly owned subsidiaries.

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

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

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Foreign exchange loss (gain) on movement in exchanges rates on U.S. dollar long-term debt | $ (14,424) | $ 12,763 |
| Loss (gain) on change in fair value of U.S. dollar forward contract relating to long-term debt (note 29) | 509 | (4,831) |
| | $ (13,915) | $ 7,932 |

## 17 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, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Opening balance | $ 66,471 | $ 43,251 |
| Settlements | (1,197) | (1,988) |
| Assumed in a business combination (note 5) | 9,930 | 3,724 |
| Additions | 4,773 | - |
| Change in estimated future cash flows | 19,782 | - |
| Effect of changes in foreign exchange rates | (61) | 13 |
| Change in discount rate | 9,608 | 19,772 |
| Unwinding of discount | 1,891 | 1,699 |
| Closing balance | $ 111,197 | $ 66,471 |

The Company currently estimates the total undiscounted future value amount, including an inflation factor of 2%, of estimated cash flows to settle the future liability for asset retirement and remediation obligations to be approximately $235.8 million and $169.4 million at December 31, 2012 and 2011, 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 2.4% and 2.8% at December 31, 2012 and 2011, 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 $27.7 million, with a corresponding adjustment to property, plant and equipment. A one percent decrease in the risk-free rate would increase the provision by $27.7 million, with a corresponding adjustment to property, plant and equipment.

## 18 Other long-term liabilities

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Pension liabilities (note 27) | $ 8,239 | $ 7,327 |
| Derivative financial instruments (note 29) | 17,409 | 30,059 |
| Finance lease liabilities | 1,262 | - |
| Other | 4,122 | 625 |
| | $ 31,032 | $ 38,011 |

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

## 19 Share capital

### Authorized

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

Holders of common shares are entitled to one vote per common share at meetings of shareholders of the Company, to receive dividends if, 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.

### Issued and outstanding

The following table below sets forth the issued and outstanding shares for the years ended December 31, 2012 and 2011. All common and preferred shares have been adjusted to reflect the impact of the Reorganization.

| | Common Shares | | Preferred Shares | |
|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount |
| Balance as at January 1, 2011 | 62,250,000 | $ 537,656 | 11,578,000 | $ 127,068 |
| Dividends on preferred shares | - | - | - | 7,531 |
| Issuance of common shares, less issuance costs, net of tax | 31,250,000 | 477,986 | - | - |
| Issuance of common shares in connection with the exercise of stock options | 476,104 | 4,114 | - | - |
| Issuance of common shares in connection with the Dividend Reinvestment Program | 976,145 | 17,235 | - | - |
| Issuance of common shares in connection with business combinations (note 5) | 2,383,392 | 45,999 | - | - |
| Cancellation of preferred shares on Reorganization | - | - | (11,578,000) | (134,599) |
| Balance as at December 31, 2011 | 97,335,641 | $ 1,082,990 | - | $ - |
| Issuance of common shares, less issuance costs, net of tax | 18,216,000 | 390,229 | - | - |
| Issuance of common shares in connection with the exercise of stock options | 2,149,941 | 18,576 | - | - |
| Issuance of common shares in connection with the other equity awards | 573,400 | - | - | - |
| Issuance of common shares in connection with the Dividend Reinvestment Program | 1,848,548 | 37,555 | - | - |
| Transfer from contributed surplus on issue of equity awards | - | 13,799 | - | - |
| Balance as at December 31, 2012 | 120,123,530 | $ 1,543,149 | - | $ - |

On October 29, 2012, the Company closed a bought deal offering of subscription receipts which on closing of the acquisition of OMNI were automatically exchanged into common shares of the Company. As a result, the Company issued 18,216,000 common shares at a price of $22.10 per common shares for gross proceeds of approximately $402.6 million. The Company incurred issuance costs, including the underwriters' discount, of $16.4 million, offset in part by a tax benefit of $4.0 million relating to the deductibility of issuance costs. The net proceeds were used to finance a portion of the purchase price of OMNI.

On June 15, 2011, the Company completed a common share offering, whereby the Company issued approximately 31,250,000 common shares at a share price of $16.00 per share for gross proceeds of $500.0 million. The Company incurred issuance costs, including the underwriters' discount, of $29.4 million, offset in part by a tax benefit of $7.4 million relating to the deductibility of issuance costs.

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

In connection with the Reorganization, all the preferred shares of Gibson Energy Holding ULC were cancelled. In addition, a warrant held by Hunting PLC ("Hunting") to acquire common shares of 1441682 Alberta Ltd., who held the preferred shares in Gibson Energy Holding ULC, was acquired by the Company at its accreted value of $134.6 million on June 15, 2011.

A dividend of $0.26 per share, declared in November 2012, was paid on January 17, 2013.

## 20 Commitments and contingencies

### Commitments

Operating lease obligations primarily relate to office leases, rail tank cars, vehicles, field buildings and computer equipment. 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:

| | |
|---|---|
| 2013 | $ 27,511 |
| 2014 | 23,212 |
| 2015 | 20,011 |
| 2016 | 18,118 |
| 2017 | 14,610 |
| 2018 and later | 28,765 |
| | $ 132,227 |

Expenses related to operating leases, net of sublease income, were $22.9 million and $22.3 million for the year ended December 31, 2012 and 2011, respectively.

Finance lease liabilities primarily relates to trucks and trailers and are for the non-cancellable term ranging from 1 to 3 years with a favourable bargain purchase option at the end of the term. The minimum lease payments are expected to be as follows:

| | |
|---|---|
| 2013 | $ 1,874 |
| 2014 | 942 |
| 2015 | 406 |
| | $ 3,223 |

With respect to capital expenditures, at December 31, 2012, the Company had $162.1 million remaining to be spent that relate 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 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, 2012 and 2011 is $26.5 million and $53.6 million, respectively, whereby Hunting paid the Company and the Company paid the tax assessments relative to certain of these audits. In the year ended December 31, 2012, the Company received a refund of income tax assessment of $27.1 million that was ultimately refunded to Hunting. The Company has assumed 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.

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

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.

## 21 Revenue

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Products | $ 4,196,663 | $ 4,511,409 |
| Services | 716,366 | 560,622 |
| | $ 4,913,029 | $ 5,072,031 |

## 22 Depreciation and amortization

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Depreciation of property, plant and equipment | $ 91,972 | $ 69,517 |
| Amortization of intangible assets | 34,639 | 31,000 |
| | $ 126,611 | $ 100,517 |

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

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Cost of sales | $ 122,745 | $ 97,261 |
| General and administrative | 3,866 | 3,256 |
| | $ 126,611 | $ 100,517 |

## 23 Employee salaries and benefits

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Salaries and wages | $ 140,143 | $ 112,662 |
| Post-employment benefits (note 27) | 5,501 | 4,380 |
| Share based compensation | 3,856 | 7,775 |
| Termination benefits | 1,416 | 1,140 |
| | $ 150,916 | $ 125,957 |

Employee salaries and benefits have been expensed as follows:

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Cost of sales | $ 128,185 | $ 101,427 |
| General and administrative | 22,731 | 24,530 |
| | $ 150,916 | $ 125,957 |

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

## 24 Other operating income

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| Gain on sale of property, plant and equipment | $ 1,803 | $ 1,793 |
| Foreign exchange gain | 6,564 | 1,918 |
| | $ 8,367 | $ 3,711 |

## 25 Per share amounts

The following table reconciles net income (loss) to income (loss) attributable to common shareholders:

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| Net income (loss) | $ 116,186 | $ (62,605) |
| Dividends on preferred shares | - | (7,531) |
| Income (loss) attributable to common share holders | $ 116,186 | $ (70,136) |

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

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| Weighted average common shares outstanding - Basic | 102,812,328 | 79,676,340 |
| Dilutive effect of: | | |
| Stock options and other awards | 2,700,369 | - |
| Weighted average common shares – Diluted | 105,512,697 | 79,676,340 |

The dilutive effect of 2,179,790 stock options and other awards and 6,889,204 preferred shares for the year ended December 31, 2011 has not been included in the determination of the weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net loss per common share.

All share and option amounts have been adjusted to reflect the impact of the Reorganization.

## 26 Related party transactions

***Management and registration rights agreements***

The Company had a management agreement with Riverstone, whereby Riverstone provided management advisory services in connection with the general business operations of the Company. The management agreement was terminated on June 15, 2011 in connection with the completion of the Offering and as a result no management fees have been incurred since that date. Total management fees and expenses of $0.6 million were charged to general and administrative expenses for the year ended December 31, 2011.

As at December 31, 2011, Co-op owned approximately 29% of the Company’s issued and outstanding common shares. On March 27, 2012, the Company completed a secondary offering of common shares of the Company held by Co-op, pursuant to which Co-op sold 28,107,782 common shares at a price of $20.70 per common share for total gross proceeds to Co-op of $581.8 million. As a result, Co-op and Riverstone no longer own any common shares of the Company.

Concurrently with the completion of the Offering in 2011, the Company and Co-op entered into a registration rights agreement to govern the sale of common shares held by Co-op and its affiliates. The agreement also contained customary registration, expense reimbursement and indemnity terms. In connection with the agreement, the Company incurred professional fees relating to the secondary offerings of common shares of $0.2 million and $0.3 million in the year ended December 31, 2012 and 2011, respectively. The registration right agreement expired on closing of the secondary offering on March 27, 2012 and accordingly, no expenses have been incurred since that date.

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

***Sale and purchase of goods and services***

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| **Sale of goods and services** | | |
| Principal shareholder having controlling/significant interest | $ 226 | $ 908 |
| Associates | 205 | 3,935 |
| **Purchase of goods and services** | | |
| Principal shareholder having controlling/significant interest | $ 46,185 | $ 130,059 |
| Associates | - | 12,352 |

The related party transactions noted above were measured at the exchange amount and only for the period in which they were considered related.

***Year end balances outstanding***

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Trade and other receivables** | | |
| Parent having controlling/significant interest | $ - | $ 268 |
| Associates | - | 215 |

***Jointly controlled entities***

On August 11, 2011, the Company formed a partnership (the "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 Partnership commenced operations in 2012. The Company's interest in the partnership is 50%. A member of the Company's Board is also a director of the other party with the 50% interest in the Partnership. At December 31, 2012 and 2011, the Company's proportionate share of property, plant and equipment was $9.8 million and $3.2 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, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Salaries and short-term employee benefits | $ 6,597 | $ 5,653 |
| Post-employment benefits | 875 | 841 |
| Share based compensation | 1,435 | 5,709 |
| Termination benefits | 270 | - |
| | $ 9,177 | $ 12,203 |

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

## 27 Retirement benefits

### Defined benefit plans

In the valuation of pension and OPRB, management utilizes various assumptions. The Company determines its discount rate based on an investment grade bond yield curve with a duration that approximates the benefit payment timing of each plan. This rate can fluctuate based on changes in investment grade bond yields.

The long-term rate of return on plan assets is estimated based on an evaluation of historical returns for each asset category held by the plans, coupled with the current and short-term mix of the investment portfolio. The historical returns are adjusted for expected future market and economic changes. This return will fluctuate based on actual market returns and other economic factors.

The rate of future health care cost increases is based on historical claims and enrolment information projected over the next fiscal year and adjusted for administrative charges. Future compensation rates, withdrawal rates and participant retirement age are determined based on historical information. These assumptions are not expected to significantly change. Mortality rates are determined based on a review of published mortality tables.

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, 2009. Based on the actuarial valuations as at December 31, 2012 and 2011, the status of the defined benefit plans was as follows:

*Accrued benefit obligation*

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Pension | OPRB | Pension | OPRB |
| Accrued benefit obligation, beginning of year | $ 13,003 | $ 3,508 | $ 12,069 | $ 3,229 |
| Current service cost | 509 | 324 | 144 | 224 |
| Interest cost | 568 | 152 | 585 | 154 |
| Benefits paid | (490) | (259) | (443) | (298) |
| Actuarial loss | 1,132 | 349 | 640 | 199 |
| Other | 14 | - | 8 | - |
| Accrued benefit obligation, end of year | $ 14,736 | $ 4,074 | $ 13,003 | $ 3,508 |

*Plan assets*

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Pension | OPRB | Pension | OPRB |
| Fair value of pension plan assets, beginning of year | $ 10,472 | $ - | $ 10,559 | $ - |
| Expected return on plan assets | 574 | - | 611 | - |
| Actual contributions | 474 | 259 | 517 | 298 |
| Actual benefits paid | (490) | (259) | (443) | (298) |
| Actuarial loss (gain) | 77 | - | (772) | - |
| Fair value of pension plan assets, end of year | $ 11,107 | $ - | $ 10,472 | $ - |

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

*Accrued benefit liability*

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Pension | OPRB | Pension | OPRB |
| Funded status | $ (3,629) | $ (4,074) | $ (2,531) | $ (3,508) |
| Amounts not recognized: | | | | |
| Unamortized past service cost | - | (570) | - | (648) |
| Accrued benefit liability | $ (3,629) | $ (4,644) | $ (2,531) | $ (4,156) |

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Pension | OPRB | Pension | OPRB |
| Amounts recognized in the balance sheet consist of: | | | | |
| Long-term prepaid expenses and other assets | $ 1,087 | $ - | $ 1,212 | $ - |
| Trade payables and accrued charges | (860) | (261) | (313) | (259) |
| Other long-term liabilities | (3,856) | (4,383) | (3,430) | (3,897) |
| Net amount recognized | $ (3,629) | $ (4,644) | $ (2,531) | $ (4,156) |

Prepaid pension and OPRB are included in long-term prepaid expenses and other assets. Accrued benefit obligations are included in trade payables and accrued charges and other long-term liabilities.

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

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Discount rate | 4.0% | 4.5% |
| Expected long-term rate of return on plan assets | 6.3% | 6.5% |
| Rate of compensation increase | 5.0% | 3.5% |

The expected long-term return on assets represents the average rate of earnings expected on the pension fund, net of expenses, to provide for the benefits included in the accrued benefit obligation. It is used to calculate the expected return on pension fund assets, which is a component of the pension expense.

The difference in present values of pension fund assets and accrued pension benefits is amortized to income over the expected average remaining service life of the employees covered by the plans.

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

The periodic expense for the benefits is as follows:

| | Year ended December 31, 2012 | | Year ended December 31, 2011 | |
|---|---|---|---|---|
| | Pension | OPRB | Pension | OPRB |
| Current service cost | $ 509 | $ 324 | $ 144 | $ 224 |
| Interest cost | 568 | 152 | 585 | 154 |
| Expected return on plan assets | (574) | - | (611) | - |
| Amortization of past service credits | - | (78) | - | (78) |
| Defined benefit plan expense | $ 503 | $ 398 | $ 118 | $ 300 |

At December 31, 2012 and 2011 the accumulated actuarial losses recognized in other comprehensive income were $3.6 million and $2.2 million, respectively, before the impact of income tax.

Assumed health care cost trend rates are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Health care cost trend rate for next year | 7.0% | 7.5% |
| Rate that the trend rate gradually trends to | 5.0% | 5.0% |
| Year that the trend rate reaches the rate which it is expected to remain at | 2019 | 2017 |

Assumed health care cost trend rates have an effect on the amounts reported for OPRB. A one-percentage point change in assumed health care cost trend rates would have the following impact:

| | One % point increase | One % point decrease |
|---|---|---|
| Effect on total of service cost and interest cost | $ 75 | $ (58) |
| Effect on post retirement benefit obligation | 457 | (369) |

The Company's defined benefit pension plan asset allocation is as follows:

| *% of Plan Assets as at:* | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Equity | 57 | 58 |
| Bonds | 35 | 35 |
| Cash and equivalents | 7 | 7 |
| Total | 100 | 100 |

The Company's overall investment strategy is to achieve an asset mix to meet both near-term and long term benefit payments with a diversification of asset types. The fair value of the Company's plan assets are determined by using Level 1 inputs, defined as observable inputs such as quoted prices in active markets.

The Company's contributions to the pension plans are subject to the results of actuarial valuation. Contributions by participants to the pension plan were $14,000 and $17,500 in the year ended December 31, 2012 and 2011, respectively.

Expected contributions by the Company for the year ended December 31, 2013 are $0.9 million for the defined benefit pension plan and $0.3 million for the OPRB plan.

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

### 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, it is fully funded by the Company. The total expense recorded for the defined contribution pension plans was $4.6 million and $4.1 million for the year ended December 31, 2012 and 2011, respectively.

## 28 Share based compensation

In conjunction with the Offering and the Reorganization, on June 15, 2011, the Company established the 2011 Equity Incentive Plan) that replaced the existing option plan (the ''Old Option Plan''). The 2011 Equity Incentive Plan 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 2012 and 2011 were expected to be settled by delivery of common shares and accordingly, were considered an equity–settled awards 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 PSUs except that DSUs may not be redeemed until the holder ceases to hold all offices, employment and directorships. The Company reserved a total of 7,947,500 shares for grants under the 2011 Equity Incentive Plan of which 2,462,643 awards are available to grant as at December 31, 2012.

Concurrent with the Offering, the stock options outstanding under the Old Option Plan were exchanged for a combination of stock options and RSUs under the 2011 Equity Incentive Plan, with the new awards having the same ''in-the-money'' amount as the stock options outstanding under the Old Option Plan (the ''modification''). The stock options outstanding under the Old Option Plan of 6,916,602 were exchanged for 3,888,072 stock options and 1,393,622 RSUs under the 2011 Equity Incentive Plan. In addition, the awards granted under the 2011 Equity Incentive Plan as part of the exchange were granted with similar vesting terms as the original awards.

A summary of stock option activity under both plans is set forth below. All options and prices have been adjusted to reflect the impact of the Re-organization.

| **Old Option Plan** | **Number of Shares** | **Weighted-Average Exercise Price (in dollars)** |
|---|---|---|
| Balance at December 31, 2010 | 6,658,991 | $ 8.64 |
| Granted | 420,746 | 8.64 |
| Forfeited | (163,135) | 8.64 |
| Rolled over into the 2011 Equity Incentive Plan | (6,916,602) | 8.64 |
| Balance at June 15, 2011 (termination) | - | $ - |

| **2011 Equity Incentive Plan** | **Number of Shares** | **Weighted-Average Exercise Price (in dollars)** |
|---|---|---|
| Rolled over from Old Option Plan | 3,888,072 | $ 8.64 |
| Granted | 4,750 | 16.10 |
| Exercised | (476,104) | 8.64 |
| Forfeited | (14,472) | 8.64 |
| Balance at December 31, 2011 | 3,402,246 | $ 8.65 |
| Granted | 96,226 | 21.24 |
| Exercised | (2,149,941) | 8.64 |
| Forfeited | (54,389) | 8.64 |
| Balance at December 31, 2012 | 1,294,142 | $ 9.60 |
| Vested and exercisable at December 31, 2012 | 1,142,648 | $ 8.66 |
| Vested and exercisable at December 31, 2011 | 3,071,864 | $ 8.65 |

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

Additional information under the 2011 Equity Incentive Plan regarding stock options outstanding as of December 31, 2012 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) |
| 1,193,166 | 6.0 | $ 8.64 | 1,141,065 | 6.0 | $ 8.64 |
| 4,750 | 5.6 | 16.10 | 1,583 | 5.6 | 16.10 |
| 19,524 | 6.5 | 20.67 | - | - | - |
| 36,538 | 6.2 | 20.68 | - | - | - |
| 40,164 | 6.5 | 22.03 | - | - | - |
| 1,294,142 | 6.0 | | 1,142,648 | 6.0 | |

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

| | Number of Shares | | |
|---|---|---|---|
| | RSUs | PSUs | DSUs |
| Rolled over from Old Option Plan | 1,393,622 | - | - |
| Granted | 26,015 | 1,604 | 42,889 |
| Forfeited | (11,318) | - | - |
| Balance at December 31, 2011 | 1,408,319 | 1,604 | 42,889 |
| Granted | 120,369 | 88,776 | 2,067 |
| Forfeited | (87,125) | (12,229) | - |
| Issued | (571,525) | (1,875) | - |
| Balance at December 31, 2012 | 870,038 | 76,276 | 44,956 |
| Vested, Balance at December 31, 2012 | 85,364 | - | 20,009 |
| Vested, Balance at December 31, 2011 | 4,399 | - | 19,088 |

Stock based compensation expense was $3.9 million and $7.8 million for the years ended December 31, 2012 and 2011, respectively, and is included in general and administrative expenses. At the date of the modification of the awards from the Old Option Plan to the 2011 Equity Incentive Plan, the Company completed a comparison of the fair value of the new awards issued under the 2011 Equity Incentive Plan with the fair value of the original awards issued under the Old Option Plan immediately before the modification. The modification did not result in an increase in the fair value of the original awards under the Old Option Plan.

The fair value of the options granted was estimated at $1.97 per option and $8.28 per option for the year ended December 31, 2012 and 2011, respectively. The fair value of options was calculated by using the Black-Scholes model with the following weighted average assumptions:

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Expected dividend rate | 4.7% | 0.1% |
| Expected volatility | 21.5% | 27.3% |
| Risk-free interest rate | 1.2% | 2.6% |
| Expected life of option (years) | 3.0 | 4.8 |

The fair value of RSUs, PSUs and DSUs was determined by the stock price on the date of grant.

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

## 29 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, long-term debt and finance lease liabilities.

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.

Net investment in finance lease, long-term debt and finance lease liabilities are recorded at amortized cost using the effective interest method of amortization. The fair value of long-term debt based on market information at December 31, 2012 and 2011 was $651.9 million and $657.7 million, respectively.

***Derivative financial instruments***

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

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Commodity futures | $ 434 | $ 2,013 | $ 159 | $ 239 |
| Commodity swaps | 5,086 | 3,887 | 1,944 | 2,007 |
| Commodity options | - | 18 | - | - |
| Electricity swap | - | - | - | 11 |
| Foreign currency forward contracts | 2,476 | 316 | 10,207 | - |
| Foreign currency options, including deferred premium | - | 2,954 | - | 9,666 |
| Interest rate swap | - | 2,884 | - | 1,865 |
| Interest rate floor | - | 17,127 | - | 22,722 |
| Total | $ 7,996 | $ 29,199 | $ 12,310 | $ 36,510 |
| Less non-current portion: | | | | |
| Foreign currency forward contracts | 2,476 | - | 9,697 | - |
| Foreign currency options | - | 2,954 | - | 9,666 |
| Interest rate swap | - | 1,746 | - | 1,865 |
| Interest rate floor | - | 12,709 | - | 18,528 |
| | 2,476 | 17,409 | 9,697 | 30,059 |
| Current portion | $ 5,520 | $ 11,790 | $ 2,613 | $ 6,451 |

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 has entered into crude oil futures, options and swap contracts to manage the price risk associated with sales, purchases and inventories of crude oil and petroleum products.

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

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

***Electricity Price Swap***

The Company was a party to a financial swap contract to fix the level of anticipated electricity costs that were price sensitive to the Alberta Electric System Operator ("AESO") Pool Price. If the actual AESO Pool Price was greater than $80.49/megawatt hour the Company was to receive the difference between that price and $80.49. If the actual AESO Pool Price was less than $80.49, the Company was to pay the difference between that price and $80.49. The contract was for 3 megawatts, 24 hours per day, seven days per week. This contract expired on December 31, 2012.

**(ii) Currency financial instruments**

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

The Company has entered into forward contracts to 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.

The Company also entered into U.S. dollar forward contracts that mature on September 15, 2015 on U.S.$498.0 million of the principal of the Company's long-term debt to help mitigate the currency risk associated with its U.S. dollar denominated long-term debt. In addition, the Company entered into forward contracts on U.S.$341.5 million of the purchase price of the acquisition of OMNI (note 5) in order to minimize the effect of foreign exchange fluctuations on the U.S. dollar purchase price. These contracts expired on October 31, 2012 and resulted in a realized foreign exchange gain of $6.3 million in the year ended December 31, 2012 that was recognized in other operating income in the statement of operations.

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

In connection with the forward contracts on the principal of the Company's long-term debt and to mitigate the credit cost, the Company sold U.S. dollar call options, expiring September 15, 2015, with a strike price of $1.32 to U.S.$1.00 for which the Company received a cash premium of $4.8 million. At the end of each period, the Company determines the fair value of the call option and recognizes a gain or loss in the period by comparing the fair value of the option with the value of the cash premium received. As a result of the movement in the fair value of the options, the Company recognized a gain of $6.7 million and a loss of $4.9 million during the year ended December 31, 2012 and 2011, respectively.

***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 fixes the interest rate on U.S.$175.0 million of the principal at 5.5% for a three year period beginning in September 2012.

***Interest Rate Floor***

The Tranche B Term Loan carries an interest rate of Adjusted LIBOR plus 3.75%, subject to a minimum Adjusted LIBOR floor of 1.0%. This interest rate floor is considered an embedded derivative as the floor rate exceeded the market rate of interest at the time that the debt was incurred. As a result, the interest rate floor derivative is separated from the carrying value of long-term debt and accounted for as a separate financial liability measured at fair value.

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.

(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, 2012 was:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets from financial instrument contracts | | | | |
| Commodity swaps | $ 5,086 | $ - | $ 5,086 | $ - |
| Commodity futures | 434 | 434 | - | - |
| Foreign currency forward contracts | 2,476 | - | 2,476 | - |
| Total assets | $ 7,996 | $ 434 | $ 7,562 | $ - |
| Liabilities from financial instrument contracts | | | | |
| Commodity swaps | $ 3,887 | $ - | $ 3,887 | $ - |
| Commodity futures | 2,013 | 2,013 | - | - |
| Commodity options | 18 | - | 18 | - |
| Interest rate swap | 2,884 | - | 2,884 | - |
| Foreign currency options, including deferred premium | 2,954 | - | 2,954 | - |
| Foreign currency forward contracts | 316 | - | 316 | - |
| Interest rate floor | 17,127 | - | 17,127 | - |
| Total liabilities | $ 29,199 | $ 2,013 | $ 27,186 | $ - |

The fair value of derivative financial instrument contracts at December 31, 2011 was:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets from financial instrument contracts | | | | |
| Commodity swaps | $ 1,944 | $ - | $ 1,944 | $ - |
| Commodity futures | 159 | 159 | - | - |
| Foreign currency forward contracts | 10,207 | - | 10,207 | - |
| Total assets | $ 12,310 | $ 159 | $ 12,151 | $ - |
| Liabilities from financial instrument contracts | | | | |
| Commodity swaps | $ 2,007 | $ - | $ 2,007 | $ - |
| Commodity futures | 239 | 239 | - | - |
| Electricity swaps | 11 | - | 11 | - |
| Interest rate swap | 1,865 | - | 1,865 | - |
| Foreign currency options, including deferred premium | 9,666 | - | 9,666 | - |
| Interest rate floor | 22,722 | - | 22,722 | - |
| Total liabilities | $ 36,510 | $ 239 | $ 36,271 | $ - |

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

| | Year ended December 31, 2012 | 2011 |
|---|---|---|
| Cost of sales | $ 1,080 | $ (1,728) |
| Foreign exchange loss (gain) on long-term debt (note 16) | 509 | (4,831) |
| Loss (gain) on financial instrument relating to interest expense | (4,247) | 11,475 |
| | $ (2,658) | $ 4,916 |

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

**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 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, options and swaps. These financial instruments have not been designated in a hedge relationship. No speculative positions are entered into by the Company.

**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, | |
|---|---|---|
| | 2012 | 2011 |
| **U.S. Dollar Forwards** | | |
| Favorable 5% change | $ 2,529 | $ 2,451 |
| Unfavorable 5% change | (2,529) | (2,451) |
| **U.S. Dollar long-term debt Forwards and the related Options** | | |
| Favorable 5% change | $ 5,670 | $ 10,228 |
| Unfavorable 5% change | (5,670) | (10,228) |

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

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

### b) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. The following table summarizes the impact to net income and equity to a change in fair value of the Company's risk management position to changes in interest rates leaving all other variables constant as at December 31, 2012 and 2011.

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Interest Rate Swap** | | |
| Favorable 1% change | $ 1,537 | $ 738 |
| Unfavorable 1% change | (189) | (570) |
| **Interest Rate Floor** | | |
| Favorable 1% change | $ 7,262 | $ 8,048 |
| Unfavorable 1% change | (17,887) | (12,970) |

The Company's interest rate risk exposure does not exist within any of the operating segments, but exists at the corporate level where the debt obligations are issued.

### c) Commodity price risk

The Company is exposed to changes in the price of crude oil, NGL's, 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. An electricity price swap has been used to manage the exposure to electricity prices in Canada and if used, would be marked to market each period. 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 risk management positions because of fluctuations in commodity prices leaving all other variables constant, in particular foreign currency rates, as at December 31, 2012 and 2011. The Company believes that a 15% volatility in crude oil and NGL related prices and a 10% volatility in electricity prices are reasonable possible changes in assumptions.

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Crude oil and NGL related prices** | | |
| Favorable 15% change | $ 3,706 | $ 5,427 |
| Unfavorable 15% change | (3,656) | (5,427) |
| **Electricity prices** | | |
| Favorable 10% change | $ - | $ 157 |
| Unfavorable 10% change | - | (157) |

### 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, 2012 and 2011, approximately 5% and 8%, 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.

(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 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 high-quality commercial paper money market funds and time deposits with major 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 include 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 up to U.S.$375.0 million and at December 31, 2012, $31.8 million was drawn against the facility.

The terms of the Tranche B Term Loan and Revolving Credit Facility require the Company to comply with financial covenants, including maintaining a senior secured leverage ratio and an interest coverage ratio. If the Company fails to comply with these covenants the lenders may declare an event of default. At December 31, 2012, 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, 2012. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

| | On demand or within one year | Between one and five years | After five years | Total |
|---|---|---|---|---|
| Credit facilities | $ 31,837 | $ - | $ - | $ 31,837 |
| Trade payables and accrued charges excluding derivative financial instruments | 455,434 | - | - | 455,434 |
| Dividend payable | 31,232 | - | - | 31,232 |
| Long-term debt | 6,467 | 25,868 | 609,500 | 641,835 |
| Interest payment on long-term debt | 31,624 | 120,605 | 13,253 | 165,482 |
| Commodity futures | 2,013 | - | - | 2,013 |
| Commodity swaps | 3,887 | - | - | 3,887 |
| Commodity options | 18 | - | - | 18 |
| Foreign currency forwards and options | 316 | 2,954 | - | 3,270 |
| Interest rate swap | 1,138 | 1,746 | - | 2,884 |
| Interest rate floor | 4,418 | 12,033 | 676 | 17,127 |
| | $ 568,384 | $ 163,206 | $ 623,429 | $ 1,355,019 |

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

**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 and/or adjust its capital spending to manage its current and projected debt levels.

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

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Total financial liability borrowings | $ 637,982 | $ 627,289 |
| Less: cash and cash equivalents | (61,026) | (64,810) |
| Net debt | 576,956 | 562,479 |
| Total share capital | 1,543,149 | 1,082,990 |
| **Total capital** | $ 2,120,105 | $ 1,645,469 |

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.

## 30 Segmental information

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

**Terminals and Pipelines** includes fee-based storage and terminalling services and tariff-based pipeline services for crude oil, condensate and refined products, as well as emulsion treating, water disposal services and oilfield waste management. 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 and custom treating terminals, which are strategically located throughout Alberta and Saskatchewan; and injection stations, which are located in the United States.

**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** include a retail propane distribution operation and a wholesale business that includes a wholesale propane distribution and an NGL marketing business. The retail operation sells propane to oil and gas, industrial 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 and marketing of a variety of products, including several grades of road asphalt, roofing flux, wellsite fluids and tops.

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

**Marketing** includes the purchasing, selling, storing and blending of crude oil and condensate and taking advantage of specific location, quality, or time-based arbitrage opportunities.

**Environmental Services** is a new segment formed in the year ended December 31, 2012, as a result of the acquisition of OMNI and includes the provision of environmental and production services, exploration support services and accommodation facilities to the oil and gas industry.

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.

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.

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

| Year ended December 31, 2012 | Terminals & Pipelines | Truck Transportation | Propane & NGL Marketing & Distribution | Processing & Wellsite Fluids | Marketing | Environmental Services | Corporate & other reconciling balances | Total |
|---|---|---|---|---|---|---|---|---|
| **Statement of operations** | | | | | | | | |
| Revenue - external and inter-segmental......... | $ 146,734 | $ 524,007 | $ 856,686 | $ 551,737 | $ 3,745,283 | $ 37,889 | $ - | $ 5,862,336 |
| Revenue - inter-segmental ................ | (51,793) | (43,932) | (143,731) | (176,465) | (533,386) | - | - | (949,307) |
| Revenue - external ........ | 94,941 | 480,075 | 712,955 | 375,272 | 3,211,897 | 37,889 | - | 4,913,029 |
| Segment profit .............. | 87,157 | 85,499 | 49,671 | 40,068 | 58,737 | 8,761 | - | 329,893 |
| Depreciation of property, plant and equipment. | 34,020 | 32,199 | 9,162 | 10,147 | 256 | 4,378 | 1,810 | 91,972 |
| Amortization of intangible assets | 5,206 | 11,562 | 5,853 | 5,665 | 678 | 3,619 | 2,056 | 34,639 |
| General and administrative .......... | - | - | - | - | - | - | 32,747 | 32,747 |
| Stock based compensation ........... | - | - | - | - | - | - | 3,856 | 3,856 |
| Corporate foreign exchange gain | - | - | - | - | - | - | (6,482) | (6,482) |
| Interest expense ............ | - | - | - | - | - | - | 43,655 | 43,655 |
| Gain on financial instruments relating to interest expense........ | - | - | - | - | - | - | (4,247) | (4,247) |
| Interest income ............. | - | - | - | - | - | - | (645) | (645) |
| Foreign exchange gain on long-term debt.......... | - | - | - | - | - | - | (13,915) | (13,915) |
| Income tax provision ..... | - | - | - | - | - | - | 32,127 | 32,127 |
| Net income .................. | $ 47,931 | $ 41,738 | $ 34,656 | $ 24,256 | $ 57,803 | $ 764 | $ (90,962) | $ 116,186 |

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

| Year ended December 31, 2011 | Terminals & Pipelines | Truck Transportation | Propane & NGL Marketing & Distribution | Processing & Wellsite Fluids | Marketing | Corporate & other reconciling balances | Total |
|---|---|---|---|---|---|---|---|
| **Statement of operations** | | | | | | | |
| Revenue - external and inter-segmental | $ 888,803 | $ 458,127 | $ 1,028,534 | $ 501,191 | $ 3,774,135 | $ - | $ 6,650,790 |
| Revenue - inter-segmental | (779,473) | (51,123) | (122,915) | (137,276) | (487,972) | - | (1,578,759) |
| Revenue - external | 109,330 | 407,004 | 905,619 | 363,915 | 3,286,163 | - | 5,072,031 |
| Segment profit | 72,081 | 68,613 | 40,385 | 46,905 | 28,674 | - | 256,658 |
| Depreciation of property, plant and equipment | 24,831 | 25,484 | 8,168 | 9,143 | 171 | 1,720 | 69,517 |
| Amortization of intangible assets | 2,322 | 13,392 | 6,228 | 6,843 | 679 | 1,536 | 31,000 |
| General and administrative | - | - | - | - | - | 27,695 | 27,695 |
| Stock based compensation | - | - | - | - | - | 7,775 | 7,775 |
| Gain on sale of Edmonton North Terminal | - | - | - | - | - | (20,370) | (20,370) |
| Gain on remeasurement of interest in equity investment | - | - | - | - | - | (16,900) | (16,900) |
| Corporate foreign exchange gain | - | - | - | - | - | (1,949) | (1,949) |
| Interest expense | - | - | - | - | - | 69,038 | 69,038 |
| Loss on financial instruments relating to interest expense | - | - | - | - | - | 11,475 | 11,475 |
| Interest income | - | - | - | - | - | (606) | (606) |
| Foreign exchange loss on long-term debt | - | - | - | - | - | 7,932 | 7,932 |
| Debt extinguishment costs | - | - | - | - | - | 166,056 | 166,056 |
| Income tax recovery | - | - | - | - | - | (31,400) | (31,400) |
| Net income (loss) | $ 44,928 | $ 29,737 | $ 25,989 | $ 30,919 | $ 27,824 | $ (222,002) | $ (62,605) |

The breakdown of total assets and liabilities by operating segment is as follows:

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Total Assets | Total Liabilities | Total Assets | Total Liabilities |
| Terminals and Pipelines | $ 740,742 | $ 43,058 | $ 705,974 | $ 42,084 |
| Truck Transportation | 393,297 | 49,685 | 332,738 | 36,726 |
| Propane & NGL Marketing & Distribution | 353,663 | 85,271 | 376,126 | 101,180 |
| Processing & Wellsite Fluids | 391,733 | 70,051 | 346,406 | 42,177 |
| Marketing | 278,604 | 212,983 | 269,041 | 197,833 |
| Environmental Services | 521,754 | 35,858 | - | - |
| Corporate & other reconciling balances | 116,732 | 992,785 | 174,090 | 931,154 |
| Total | $ 2,796,525 | $ 1,489,691 | $ 2,204,375 | $ 1,351,154 |

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

**Geographic Data**

Based on the location of the end user, approximately 22% and 21% of revenue was from customers in the United States for the year ended December 31, 2012 and 2011, respectively.

The Company's non-current assets, excluding investment in finance lease and deferred tax asset, are primarily concentrated in Canada with 32% and 12% in the United States at December 31, 2012 and 2011, respectively.

## 31 Subsequent Event

On March 5, 2013, the Company announced that the Board declared a quarterly dividend of $0.275 per common share for the quarter ending March 31, 2013 on its outstanding common shares. The common share dividend is payable on April 17, 2013 to shareholders of record at the close of business on March 29, 2013.