

# **Gibson Energy Inc.**

Condensed Consolidated Financial Statements  
June 30, 2013 and 2012  
(Unaudited)  
(in thousands of Canadian dollars)

# Gibson Energy Inc.

## Condensed Consolidated Balance Sheet

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	June 30, 2013	December 31, 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 130,735	\$ 61,026
Trade and other receivables (note 4) .....	524,140	484,843
Inventories (note 5) .....	146,329	151,458
Income taxes receivable .....	7,478	5,401
Prepaid expenses and other assets .....	10,804	17,584
Net investment in finance leases (note 7).....	601	549
Total current assets.....	<u>820,087</u>	<u>720,861</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 6) .....	1,061,567	1,038,784
Long-term prepaid expenses and other assets .....	19,039	5,894
Net investment in finance leases (note 7).....	77,813	78,130
Deferred income tax assets.....	9,295	9,060
Intangible assets (note 8).....	222,214	234,438
Goodwill (note 9).....	723,117	709,358
Total non-current assets .....	<u>2,113,045</u>	<u>2,075,664</u>
<b>Total assets</b> .....	<u>\$ 2,933,132</u>	<u>\$ 2,796,525</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Credit facilities (note 11).....	\$ -	\$ 31,837
Trade payables and accrued charges (note 10).....	489,923	467,224
Dividends payable.....	33,349	31,232
Deferred revenue .....	6,688	1,499
Income taxes payable .....	637	3,410
Current portion of long-term debt (note 11).....	-	6,467
Total current liabilities .....	<u>530,597</u>	<u>541,669</u>
<b>Non-current liabilities</b>		
Long-term debt (note 11) .....	749,415	599,677
Provisions (note 12) .....	95,410	111,197
Other long-term liabilities (note 13).....	15,654	30,384
Deferred income tax liabilities .....	203,932	206,116
Total non-current liabilities .....	<u>1,064,411</u>	<u>947,374</u>
Total liabilities .....	<u>1,595,008</u>	<u>1,489,043</u>
<b>Equity</b>		
Share capital (note 14) .....	1,564,331	1,543,149
Contributed surplus .....	11,879	11,297
Accumulated other comprehensive income (loss).....	25,819	(9,166)
Deficit.....	<u>(263,905)</u>	<u>(237,798)</u>
Total equity .....	<u>1,338,124</u>	<u>1,307,482</u>
<b>Total liabilities and equity</b> .....	<u>\$ 2,933,132</u>	<u>\$ 2,796,525</u>

See accompanying notes

# Gibson Energy Inc.

## Condensed Consolidated Statement of Operations

(Unaudited)

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenue (note 16) .....	\$ 1,619,726	\$ 1,126,219	\$ 3,182,737	\$ 2,421,147
Cost of sales (note 17, 18 and 22) .....	1,575,456	1,090,202	3,053,731	2,333,604
Gross profit .....	44,270	36,017	129,006	87,543
General and administrative expenses (note 17 and 18) ....	11,539	8,749	22,154	17,405
Other operating income (note 19) .....	(2,603)	(2,951)	(4,494)	(2,014)
<b>Income from operating activities</b> .....	<b>35,334</b>	<b>30,219</b>	<b>111,346</b>	<b>72,152</b>
Interest expense .....	12,158	10,752	23,808	21,988
Gain on financial instruments relating to interest expense (note 22) .....	(17,444)	(1,836)	(18,252)	(5,859)
Interest income .....	(29)	(96)	(127)	(194)
Foreign exchange loss (gain) on long-term debt (note 11)	9,036	10,455	13,066	(5,924)
Loss from investment in associate .....	-	-	-	12
Loss from sale of investment in associate .....	-	-	-	34
Debt extinguishment costs (note 11) .....	38,209	-	38,209	-
<b>Income (loss) before income taxes</b> .....	<b>(6,596)</b>	<b>10,944</b>	<b>54,642</b>	<b>62,095</b>
Income tax provision (recovery) (note 20) .....	(1,361)	1,423	14,149	12,537
<b>Net income (loss)</b> .....	<b>\$ (5,235)</b>	<b>\$ 9,521</b>	<b>\$ 40,493</b>	<b>\$ 49,558</b>
<b>Earnings (loss) per share (note 14)</b>				
Basic .....	\$ (0.04)	\$ 0.10	\$ 0.34	\$ 0.50
Diluted .....	\$ (0.04)	\$ 0.09	\$ 0.33	\$ 0.49

See accompanying notes

# Gibson Energy Inc.

## Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Net income (loss)</b> .....	\$ (5,235)	\$ 9,521	\$ 40,493	\$ 49,558
<b>Other comprehensive income</b>				
Items that may be reclassified subsequently to consolidated statement of operations:				
Exchange differences of translating foreign operations .....	22,256	3,375	34,985	432
<b>Other comprehensive income, net of tax</b> .....	22,256	3,375	34,985	432
<b>Comprehensive income</b> .....	\$ 17,021	\$ 12,896	\$ 75,478	\$ 49,990

See accompanying notes

# Gibson Energy Inc.

## Condensed Consolidated Statement of Changes in Equity

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
<b>Balance – January 1, 2012</b> .....	\$ 1,082,990	\$ 21,240	\$ (3,504)	\$ (246,857)	\$ 853,869
Net income .....	-	-	-	49,558	49,558
Other comprehensive income, net of tax .....	-	-	432	-	432
Comprehensive income .....	-	-	432	49,558	49,990
Employee share options:					
Value of services recognized.....	-	1,902	-	-	1,902
Proceeds from exercise of stock options ...	8,142	-	-	-	8,142
Reclassification of contributed surplus on exercise of stock option and other stock awards.....	8,392	(8,392)	-	-	-
Issuance of common shares in connection with the Dividend Reinvestment Program .....	20,488	-	-	-	20,488
Dividends on common shares.....	-	-	-	(49,678)	(49,678)
<b>Balance – June 30, 2012</b> .....	<u>\$ 1,120,012</u>	<u>\$ 14,750</u>	<u>\$ (3,072)</u>	<u>\$ (246,977)</u>	<u>\$ 884,713</u>
<b>Balance – January 1, 2013</b> .....	\$ 1,543,149	\$ 11,297	\$ (9,166)	\$ (237,798)	\$ 1,307,482
Net income .....	-	-	-	40,493	40,493
Other comprehensive income, net of tax .....	-	-	34,985	-	34,985
Comprehensive income .....	-	-	34,985	40,493	75,478
Employee share options:					
Value of services recognized.....	-	3,648	-	-	3,648
Proceeds from exercise of stock options ...	677	-	-	-	677
Reclassification of contributed surplus on exercise of stock option and other stock awards.....	3,066	(3,066)	-	-	-
Issuance of common shares in connection with the Dividend Reinvestment Program .....	17,439	-	-	-	17,439
Dividends on common shares.....	-	-	-	(66,600)	(66,600)
<b>Balance – June 30, 2013</b> .....	<u>\$ 1,564,331</u>	<u>\$ 11,879</u>	<u>\$ 25,819</u>	<u>\$ (263,905)</u>	<u>\$ 1,338,124</u>

See accompanying notes

# Gibson Energy Inc.

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Income from operating activities .....	\$ 35,334	\$ 30,219	\$ 111,346	\$ 72,152
Items not affecting cash				
Depreciation of property, plant and equipment (note 17).....	32,598	20,748	63,276	40,717
Amortization of intangible assets (note 17).....	12,344	7,957	24,319	15,875
Stock based compensation.....	2,023	1,050	3,648	1,902
Gain on sale of assets .....	(245)	(651)	(373)	(511)
Other .....	(1,574)	(609)	(2,823)	(397)
Net gain on fair value movement of financial instruments (note 22).....	4,848	1,935	5,504	3,000
Changes in items of working capital				
Trade and other receivables.....	(7,460)	25,661	(37,564)	16,543
Inventories.....	(2,770)	20,290	6,154	56,172
Other current assets .....	(102)	(5,692)	2,891	(4,315)
Trade payables and accrued charges .....	13,913	(46,244)	10,884	(79,511)
Deferred revenue .....	1,477	1,564	5,183	(1,361)
Income taxes.....	(9,865)	(114)	(23,958)	489
Net cash provided by operating activities .....	80,521	56,114	168,487	120,755
<b>Investing activities</b>				
Purchase of property, plant and equipment .....	(42,513)	(40,902)	(80,749)	(76,657)
Purchase of intangible assets.....	(2,334)	(716)	(3,930)	(954)
Acquisition .....	-	(3,750)	-	(3,750)
Proceeds from sale of associate.....	-	-	-	596
Proceeds from sale of assets.....	799	1,503	1,411	2,245
Net cash used in investing activities .....	(44,048)	(43,865)	(83,268)	(78,520)
<b>Financing activities</b>				
Payment of shareholder dividends .....	(33,251)	(24,733)	(64,483)	(48,095)
Proceeds from Dividend Reinvestment Plan.....	8,558	8,874	17,440	20,488
Interest paid.....	(10,517)	(9,540)	(19,258)	(21,067)
Interest received .....	28	94	123	189
Proceeds from exercise of stock options.....	45	3,241	677	8,142
Proceeds from long-term debt, net of debt discount .....	764,173	664,535	764,173	664,535
Payment of debt issue and financing costs.....	(13,601)	(10,378)	(13,601)	(10,378)
Repayment of long-term debt .....	(676,447)	(664,521)	(678,098)	(666,145)
Net proceeds on settlement of derivative financial instruments not affecting operating activities.....	8,723	-	8,723	-
Proceeds from credit facilities.....	100,000	-	124,000	-
Repayment of credit facilities .....	(100,000)	-	(156,385)	-
Payment of common shares issuance costs .....	-	-	-	(300)
Net cash provided by (used in) financing activities .....	47,711	(32,428)	(16,689)	(52,631)
<b>Effect of exchange rate on cash and cash equivalents.....</b>	1,365	246	1,179	421
<b>Net increase (decrease) in cash and cash equivalents .....</b>	85,549	(19,933)	69,709	(9,975)
<b>Cash and cash equivalents – beginning of period.....</b>	45,186	74,768	61,026	64,810
<b>Cash and cash equivalents – end of period .....</b>	\$ 130,735	\$ 54,835	\$ 130,735	\$ 54,835

See accompanying notes

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

### 1 General Information

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

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

### 2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, as set out in IAS 34, “Interim Financial Reporting”. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB. These condensed consolidated financial statements were approved for issuance by the Company’s board of directors (“Board”) on August 7, 2013.

The Company’s 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 Changes in accounting policies and disclosures

The accounting policies followed in preparation of these condensed consolidated financial statements are consistent with those of the previous financial year except as follows and for the impact of new standards described below.

- Income taxes on income in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual profit or loss

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Further information on the Company’s significant accounting policies, future changes in accounting policies and estimates can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2012.

The Company adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with applicable transitional provisions.

IFRS 7, Financial Instruments: Disclosures (“IFRS 7”), was 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. The Company will provide additional disclosures regarding financial assets and liabilities that are offset in its 2013 annual 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. The adoption of IFRS 10 did not result in any change in the consolidation status of any of the Company’s subsidiaries.

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. The adoption of IFRS 11 did not result in any changes in the accounting for joint arrangements.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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. The adoption of IFRS 12 did not result in additional disclosures.

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. The adoption of IFRS 13 did not require any adjustment to the valuation techniques used by the Company to measure fair value and accordingly, did not result in any measurement adjustment as at January 1, 2013. However, the adoption of IFRS 13 resulted in a few additional disclosures that are presented in note 22.

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. Accordingly, the Company grouped comprehensive income items for the current and comparative period. The adoption of this amendment did not result in any adjustments to other comprehensive income or comprehensive income.

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. As required, the Company adopted these amendments retrospectively. The Company adjusted its opening equity as at January 1, 2012 to recognize previously unrecognized past service credits and accordingly, on January 1, 2012, December 31, 2012 and June 30, 2013, deficit balance was decreased by approximately \$0.6 million and other-long term liabilities were decreased by \$0.6 million. The impact on the Company results of operations and earnings per share were not material for the current and comparative interim periods.

The annual improvements process addresses issues in the 2009 - 2011 reporting cycle including changes to IFRS 1, First-time adoption of International Financial Reporting Standards, IAS 1, IAS 16, ‘Property plant and equipment’, IAS 32, Financial Instruments: Presentation (IAS 32) and IAS 34. The adoption of these amendments did not have any material impact on the Company’s condensed consolidated financial statements.

IASB has recently issued amendments to IAS 36 – Impairment of Assets to provide additional disclosures including discount rates about the fair value measurements when the recoverable amount of impaired assets is based on fair value less costs of disposal. These changes are effective for annual periods beginning on or after January 1, 2014, with retrospective application. The Company is currently evaluating the impact of these changes on its consolidated financial statements.



# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

### 4 Trade and other receivables

	June 30, 2013	December 31, 2012
Trade receivables .....	\$ 520,436	\$ 469,751
Allowance for doubtful accounts .....	(6,327)	(5,435)
Trade receivables - net .....	514,109	464,316
Risk management assets (note 22) .....	2,108	5,520
Deposits held as collateral .....	944	1,337
Broker accounts receivable .....	87	5,371
GST receivable .....	4,967	3,495
Other .....	1,925	4,804
	<u>\$ 524,140</u>	<u>\$ 484,843</u>

### 5 Inventories

	June 30, 2013	December 31, 2012
Crude oil .....	\$ 69,048	\$ 79,407
Diluent .....	1,759	3,656
Asphalt .....	23,100	23,588
Natural gas liquids .....	20,715	25,103
Wellsite fluids and distillate .....	18,957	8,584
Spare parts and other .....	12,750	11,120
	<u>\$ 146,329</u>	<u>\$ 151,458</u>

### 6 Property, plant and equipment

	Land & Buildings	Pipelines	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
<b>Cost:</b>							
At December 31, 2012 .....	\$ 94,698	\$ 133,706	\$ 266,925	\$ 337,260	\$ 439,645	\$ 36,741	\$ 1,308,975
Additions .....	705	338	2,499	26,147	10,446	51,183	91,318
Disposals .....	-	-	(80)	(1,878)	(1,395)	-	(3,353)
Reclassifications .....	1,930	(2,959)	863	765	34,955	(35,554)	-
Change in decommissioning provision (note 12) .....	-	(2,867)	(6,779)	-	(7,563)	-	(17,209)
Effect of movements in exchange rates .....	732	-	650	5,810	8,146	187	15,525
At June 30, 2013 .....	<u>\$ 98,065</u>	<u>\$ 128,218</u>	<u>\$ 264,078</u>	<u>\$ 368,104</u>	<u>\$ 484,234</u>	<u>\$ 52,557</u>	<u>\$ 1,395,256</u>

#### Accumulated depreciation and impairment:

At December 31, 2012 .....	\$ 15,849	\$ 34,477	\$ 42,998	\$ 88,981	\$ 87,886	\$ -	\$ 270,191
Depreciation .....	2,390	4,625	7,902	22,403	25,956	-	63,276
Disposals .....	-	-	(29)	(1,136)	(1,150)	-	(2,315)
Effect of movements in exchange rates .....	18	-	134	1,795	590	-	2,537
At June 30, 2013 .....	<u>\$ 18,257</u>	<u>\$ 39,102</u>	<u>\$ 51,005</u>	<u>\$ 112,043</u>	<u>\$ 113,282</u>	<u>\$ -</u>	<u>\$ 333,689</u>

#### Carrying amounts:

At December 31, 2012 .....	\$ 78,849	\$ 99,229	\$ 223,927	\$ 248,279	\$ 351,759	\$ 36,741	\$ 1,038,784
At June 30, 2013 .....	79,808	89,116	213,073	256,061	370,952	52,557	1,061,567

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Additions to property, plant and equipment include capitalization of interest of \$0.4 million and \$0.7 million in the three months ended June 30, 2013 and 2012, respectively. Additions to property, plant and equipment include capitalization of interest of \$0.7 million and \$1.1 million for the six months ended June 30, 2013 and 2012, respectively.

At June 30, 2013 and December 31, 2012, the carrying value includes \$4.0 million and \$4.4 million, respectively, of assets capitalized under finance leases.

### 7 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:

	June 30, 2013	December 31, 2012
Total minimum lease payments receivable .....	\$ 325,099	\$ 335,229
Residual value .....	29,881	29,881
Unearned income .....	(276,566)	(286,431)
	78,414	78,679
Less: current portion .....	601	549
Net investment in finance lease: non-current portion.....	\$ 77,813	\$ 78,130

### 8 Intangible assets

	Brands	Customer relationships	Long-term Contracts	Non-compet agreements	Technology	Software	License and Permits	Total
<b>Cost:</b>								
At December 31, 2012	\$ 49,881	\$ 226,364	\$ 32,712	\$ 22,945	\$ 2,516	\$ 19,470	\$ 3,074	\$ 356,962
Additions .....	41	-	-	-	-	3,770	119	3,930
Effect of movements in exchange rates .....	479	7,156	1,591	347	52	88	175	9,888
At June 30, 2013 .....	\$ 50,401	\$ 233,520	\$ 34,303	\$ 23,292	\$ 2,568	\$ 23,328	\$ 3,368	\$ 370,780
<b>Accumulated amortization:</b>								
At December 31, 2012	\$ 18,280	\$ 70,900	\$ 10,515	\$ 13,934	\$ 1,651	\$ 7,073	\$ 171	\$ 122,524
Amortization .....	4,329	14,600	1,831	1,636	157	1,229	537	24,319
Effect of movements in exchange rates .....	101	795	456	323	7	11	30	1,723
At June 30, 2013 .....	\$ 22,710	\$ 86,295	\$ 12,802	\$ 15,893	\$ 1,815	\$ 8,313	\$ 738	\$ 148,566
<b>Carrying amounts:</b>								
At December 31, 2012	\$ 31,601	\$ 155,464	\$ 22,197	\$ 9,011	\$ 865	\$ 12,397	\$ 2,903	\$ 234,438
At June 30, 2013 .....	27,691	147,225	21,501	7,399	753	15,015	2,630	222,214

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

### 9 Goodwill

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

	Six months ended June 30, 2013	Year ended December 31, 2012
Opening balance .....	\$ 709,358	\$ 513,747
Additions through business combinations .....	-	197,731
Effect of movements in exchange rates .....	13,759	(2,120)
Closing balance .....	<u>\$ 723,117</u>	<u>\$ 709,358</u>

### 10 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	June 30, 2013	December 31, 2012
Trade payables .....	\$ 403,760	\$ 356,388
Accrued compensation charges .....	23,396	30,156
GST payable .....	721	1,843
Risk management liabilities (note 22) .....	8,233	11,790
Broker accounts payable .....	1,057	3,118
Pension liabilities .....	1,121	1,121
Interest payable .....	596	595
Due to Hunting PLC (note 15) .....	11,649	26,525
Other .....	39,390	35,688
	<u>\$ 489,923</u>	<u>\$ 467,224</u>

### 11 Loans and borrowings

#### Revolving Credit Facility

On June 28, 2013, the Company established a revolving credit facility of up to \$500.0 million (the "Revolving Credit Facility"), the proceeds of which are available to provide financing for working capital and other general corporate purposes. The Revolving Credit Facility has a term of five years, expiring on June 28, 2018. In connection with the Revolving Credit Facility, the Company incurred transaction costs of approximately \$2.3 million which were capitalized as prepaid expenses and other assets.

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

The Revolving Credit Facility contains certain covenants including financial covenants requiring the Company to maintain ratios of maximum senior debt leverage ratio of 3.5:1.0, maximum total debt leverage ratio of 5.0:1.0 and minimum interest coverage ratio of 2.5:1.0. As at June 30, 2013, the Company was in compliance with all covenants under the Revolving Credit Facility.

The Company has no amounts drawn against the Revolving Credit Facility as at June 30, 2013. The Company had \$31.8 million drawn against the previous revolving credit facility as at December 31, 2012. The Company had issued letters of credit totalling \$49.5 million and \$90.4 million as at June 30, 2013 and December 31, 2012, respectively.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

The Revolving Credit Facility 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.

### Long-term debt

	June 30, 2013	December 31, 2012
U.S.\$500 million 6.75% Notes due July 15, 2020.....	\$ 525,600	\$ -
\$250 million 7.00% Notes due July 15, 2021.....	250,000	-
Tranche B Term Loan .....	-	641,835
Unamortized original issue discount and debt issue costs.....	(26,185)	(24,755)
Unamortized financial instrument liability discount .....	-	(10,936)
	<u>749,415</u>	<u>606,144</u>
Less: current portion.....	-	6,467
Long-term debt: non-current portion.....	<u>\$ 749,415</u>	<u>\$ 599,677</u>

On June 28, 2013, the Company issued U.S.\$ 500.0 million 6.75% Senior Unsecured Notes due July 15, 2021 at issue price of 98.476% and \$250.0 million 7.00% Senior Unsecured Notes due July 15, 2020 at issue price of 98.633% (collectively, the "Notes"). Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding. In connection with the issuance of the Notes, the Company incurred and capitalized debt discount and issue costs of \$26.2 million relating to their issuance which were recorded as deduction to the carrying amount of the long-term debt. The proceeds from the Notes were used to repay the outstanding Tranche B Term Loan in an aggregate principal amount of U.S.\$643.5 million.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Foreign exchange loss on movement in exchange rates on U.S. dollar long-term debt.....	\$ 22,898	\$ 12,861	\$ 36,252	\$ 1,284
Gain on financial instruments relating to long-term debt (note 22).....	<u>(13,862)</u>	<u>(2,406)</u>	<u>(23,186)</u>	<u>(7,208)</u>
Foreign exchange loss (gain) on long-term debt long-term debt.....	<u>\$ 9,036</u>	<u>\$ 10,455</u>	<u>\$ 13,066</u>	<u>\$ (5,924)</u>

### Debt extinguishment costs

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

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

### 12 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:

	<u>Six months ended June 30, 2013</u>	<u>Year ended December 31, 2012</u>
Opening balance.....	\$ 111,197	\$ 66,471
Payments .....	(743)	(1,197)
Assumed in a business combination.....	-	9,930
Additions .....	-	4,773
Change in estimated future cash flows.....	-	19,782
Effect of changes in foreign exchange rates.....	601	(61)
Change in discount rate .....	(17,209)	9,608
Unwinding of discount.....	1,564	1,891
Closing balance .....	<u>\$ 95,410</u>	<u>\$ 111,197</u>

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 \$235.1 million and \$235.8 million at June 30, 2013 and December 31, 2012, 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 2.9% and 2.4% at June 30, 2013 and December 31, 2012, respectively. The provision is expected to be settled up to 40 years into the future.

### 13 Other long-term liabilities

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Pension liabilities .....	\$ 7,681	\$ 7,591
Derivative financial instruments (note 22).....	3,926	17,409
Finance lease liabilities .....	830	1,262
Other.....	3,217	4,122
	<u>\$ 15,654</u>	<u>\$ 30,384</u>

### 14 Share capital

	<u>Number of shares</u>	<u>Share Capital</u>
At January 1, 2013 .....	120,123,530	\$ 1,543,149
Exercise of stock options.....	78,340	677
Exercise of other stock awards.....	333,723	-
Reclassification of contributed surplus on exercise of stock options and other stock awards .....		3,066
Issuance of common shares in connection with the Dividend Reinvestment Program ...	735,423	17,439
At June 30, 2013 .....	<u>121,271,016</u>	<u>\$ 1,564,331</u>

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

### Share based payments

A summary of activity under the 2011 Equity Incentive Plan is as follows:

	Stock Options		Restricted Share Units	Performance Share Units	Deferred Share Units
	Number of shares	Weighted average exercise price (in dollars)		Number of Shares	
Balance at January 1, 2013.....	1,294,142	\$ 9.60	870,038	76,276	44,956
Granted.....	763,270	25.94	224,809	143,596	39,796
Exercised.....	(78,340)	8.64	(333,723)	-	-
Forfeited.....	-	-	(3,412)	-	-
Balance at June 30, 2013.....	<u>1,979,072</u>	<u>\$ 15.94</u>	<u>757,712</u>	<u>219,872</u>	<u>84,752</u>
Vested.....	<u>1,124,015</u>	<u>\$ 9.16</u>	<u>131,441</u>	<u>-</u>	<u>71,991</u>

In the three months ended June 30, 2013, the Company's shareholders approved the amendment of its 2011 Equity Incentive Plan to fix the number of common shares reserved for issuance under the plan at a maximum of 10% of the total number of common shares issued and outstanding at any given time. At June 30, 2013, awards available to grant under the amended 2011 Equity Incentive Plan were approximately 9.1 million.

### Per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Weighted average common shares outstanding .....	121,206	99,490	120,884	98,905
Dilutive effect of:				
Stock options and other awards .....	-	1,340	1,660	1,473
	<u>121,206</u>	<u>100,830</u>	<u>122,544</u>	<u>100,378</u>

The dilutive effect of 1.8 million stock options and other awards for the three months ended June 30, 2013 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.

## 15 Contingent liabilities

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

As a part of the acquisition of the Company by the wholly-owned subsidiary of R/C Guitar Cooperatief U.A. ("Co-op"), a Dutch Co-op owned by investment funds affiliated with Riverstone Holdings LLC ("Riverstone"), from Hunting PLC ("Hunting") on December 12, 2008, 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 June 30, 2013 and December 31, 2012 is \$11.6 million and \$26.5 million, respectively, whereby Hunting paid the Company and the Company paid the tax assessments relative to certain of these audits. In the six months ended June 30, 2013, the Company received a refund of income tax totalling \$14.9 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.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

(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.

### 16 Revenue

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Products.....	\$ 1,390,842	\$ 962,193	\$ 2,724,862	\$ 2,087,047
Services .....	228,884	164,026	457,875	334,100
	<u>\$ 1,619,726</u>	<u>\$ 1,126,219</u>	<u>\$ 3,182,737</u>	<u>\$ 2,421,147</u>

### 17 Depreciation and amortization

	Three months ended June 30		Six months ended June 30,	
	2013	2012	2013	2012
Depreciation of property, plant and equipment .....	\$ 32,598	\$ 20,748	\$ 63,276	\$ 40,717
Amortization of intangible assets.....	12,344	7,957	24,319	15,875
	<u>\$ 44,942</u>	<u>\$ 28,705</u>	<u>\$ 87,595</u>	<u>\$ 56,592</u>

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

	Three months ended June 30		Six months ended June 30,	
	2013	2012	2013	2012
Cost of sales .....	\$ 43,889	\$ 27,752	\$ 85,563	\$ 54,652
General and administrative.....	1,053	953	2,032	1,940
	<u>\$ 44,942</u>	<u>\$ 28,705</u>	<u>\$ 87,595</u>	<u>\$ 56,592</u>

### 18 Employee salaries and benefits

	Three months ended June 30		Six months ended June 30,	
	2013	2012	2013	2012
Employee salaries and benefits .....	\$ 48,023	\$ 34,127	\$ 95,438	\$ 69,077

Employee salaries and benefits have been expensed as follows:

	Three months ended June 30		Six months ended June 30,	
	2013	2012	2013	2012
Cost of sales .....	\$ 40,922	\$ 29,501	\$ 81,687	\$ 59,537
General and administrative.....	7,101	4,626	13,751	9,540
	<u>\$ 48,023</u>	<u>\$ 34,127</u>	<u>\$ 95,438</u>	<u>\$ 69,077</u>

Included in employee benefits is stock based compensation of \$2.0 million and \$3.6 million for the three and six months ended June 30, 2013, respectively and \$1.0 million and \$1.9 million for the three and six months ended June 30, 2012, respectively. The stock based compensation expense is included in general and administrative expenses.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

### 19 Other operating income

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Gain on sale of property, plant and equipment .....	\$ 246	\$ 651	\$ 374	\$ 511
Foreign exchange gain .....	2,357	2,300	4,120	1,503
	<u>\$ 2,603</u>	<u>\$ 2,951</u>	<u>\$ 4,494</u>	<u>\$ 2,014</u>

### 20 Income tax provision (recovery)

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

	Three months ended June 30		Six months ended June 30,	
	2013	2012	2013	2012
Current .....	\$ 7,532	\$ 7,243	\$ 19,664	\$ 11,918
Deferred .....	(8,893)	(5,820)	(5,515)	619
Income tax provision (recovery) .....	<u>\$ (1,361)</u>	<u>\$ 1,423</u>	<u>\$ 14,149</u>	<u>\$ 12,537</u>
Effective income tax rate.....	<u>20.6%</u>	<u>13.0%</u>	<u>26.0%</u>	<u>20.2%</u>

### 21 Related party transactions

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 June 30, 2013 and December 31, 2012, the Company's proportionate share of property, plant and equipment was \$10.9 million and \$9.8 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.

### 22 Financial instruments

#### *Non-Derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, trade payables and accrued charges, amounts borrowed under the Revolving Credit Facility, 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 Revolving Credit Facility are recorded at amortized cost which approximates fair value due to the short term nature of these instruments.

Long-term debt is recorded at amortized cost using the effective interest method of amortization. As at June 30, 2013, the carrying amount of long-term debt was \$775.6 million less debt discount and issue costs of \$26.2 million and fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$774.5 million, respectively.



# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

	June 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Commodity futures.....	\$ 639	\$ 57	\$ 434	\$ 2,013
Commodity swaps.....	1,498	6,810	5,086	3,887
Commodity options.....	98	52	-	18
Foreign currency forward contracts.....	14,982	1,535	2,476	316
Foreign currency options, including deferred premium.....	-	3,705	-	2,954
Interest rate swap.....	-	-	-	2,884
Interest rate floor.....	-	-	-	17,127
Total.....	<u>\$ 17,217</u>	<u>\$ 12,159</u>	<u>\$ 7,996</u>	<u>\$ 29,199</u>
Less non-current portion:				
Commodity swaps.....	127	229	-	-
Foreign currency forward contracts.....	14,982	-	2,476	-
Foreign currency options.....	-	3,697	-	2,954
Interest rate swap.....	-	-	-	1,746
Interest rate floor.....	-	-	-	12,709
	<u>15,109</u>	<u>3,926</u>	<u>2,476</u>	<u>17,409</u>
Current portion.....	<u>\$ 2,108</u>	<u>\$ 8,233</u>	<u>\$ 5,520</u>	<u>\$ 11,790</u>

The fair value of financial instruments is 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.

#### (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.

In 2011, the Company also entered into U.S. dollar forward contracts maturing 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. Following the repayment of Tranche B Term Loan on June 28, 2013, the Company received cash of \$11.6 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$238.0 million. As at June 30, 2013, U.S. dollar forward contracts for notional amount of \$260.0 million remained outstanding.

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

In 2011, 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 with notional amount of U.S.\$275.0 million, expiring September 15, 2015, with a strike price of \$1.32 to U.S.\$1.00 for which the Company received an initial cash premium of \$4.8 million.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Following the repayment of Tranche B Term Loan on June 28, 2013, the company paid \$0.2 million to settle U.S. dollar options for a notional amount of U.S.\$15.0 million. As at June 30, 2013, U.S. dollar option contracts for notional amount of \$260.0 million remained outstanding.

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 foreign exchange loss of \$0.9 million and \$4.0 million during the three months ended June 30, 2013 and 2012, respectively and a foreign exchange gain of \$0.8 million and \$4.3 million during the six months ended June 30, 2013 and 2012, respectively.

### ***Interest Rate Swap***

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

### ***Interest Rate Floor***

The Tranche B Term Loan carried an interest rate of Adjusted LIBOR plus 3.75%, subject to a minimum Adjusted LIBOR floor of 1.0%. This interest rate floor was considered an embedded derivative as the floor rate exceeded the market rate of interest at the time that the debt was incurred and modified. As a result, the interest rate floor derivative was separated from the carrying value of long-term debt and accounted for as a separate financial liability measured at fair value. Following the repayment of Tranche B Term Loan on June 28, 2013, the Company derecognized the interest rate floor financial instrument liability discount and accordingly, recognized a gain in financial instrument relating to interest expense of \$16.7 million and \$17.2 million in the three and six months ended June 30, 2013 respectively.

The value of the Company's derivative finance instruments is 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.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

The fair value of derivative financial instrument contracts by fair value hierarchy at June 30, 2013 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets from financial instrument contracts</b>				
Commodity swaps .....	\$ 1,498	\$ -	\$ 1,498	\$ -
Commodity futures .....	639	639	-	-
Commodity options.....	98	-	98	-
Foreign currency forward contracts .....	14,982	-	14,982	-
Total assets.....	<u>\$ 17,217</u>	<u>\$ 639</u>	<u>\$ 16,578</u>	<u>\$ -</u>
<b>Liabilities from financial instrument contracts</b>				
Commodity swaps .....	\$ 6,810	\$ -	\$ 6,810	\$ -
Commodity futures .....	57	57	-	-
Commodity options.....	52	-	52	-
Foreign currency options, including deferred premium.....	3,705	-	3,705	-
Foreign currency forward contracts .....	1,535	-	1,535	-
Total liabilities.....	<u>\$ 12,159</u>	<u>\$ 57</u>	<u>\$ 12,102</u>	<u>\$ -</u>

The fair value of derivative financial instrument contracts at December 31, 2012 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets from financial instrument contracts</b>				
Commodity swaps .....	\$ 5,086	\$ -	\$ 5,086	\$ -
Commodity futures .....	434	434	-	-
Foreign currency forward contracts .....	2,476	-	2,476	-
Total assets.....	<u>\$ 7,996</u>	<u>\$ 434</u>	<u>\$ 7,562</u>	<u>\$ -</u>
<b>Liabilities from financial instrument contracts</b>				
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.....	<u>\$ 29,199</u>	<u>\$ 2,013</u>	<u>\$ 27,186</u>	<u>\$ -</u>

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Cost of sales .....	\$ 4,848	\$ 1,935	\$ 5,504	\$ 3,000
Foreign exchange gain on long-term debt (note 11) .....	(13,862)	(2,406)	(23,186)	(7,208)
Gain on financial instruments relating to interest expense.....	(17,444)	(1,836)	(18,252)	(5,859)
	<u>\$ (26,458)</u>	<u>\$ (2,307)</u>	<u>\$ (35,934)</u>	<u>\$ (10,067)</u>

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

(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:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
<b>U.S. dollar forwards and options</b>		
Favorable 5% change .....	\$ 4,318	\$ 2,381
Unfavorable 5% change .....	(4,352)	(2,381)
<b>U.S. dollar long-term debt forwards and the related options</b>		
Favorable 5% change .....	\$ 11,295	\$ 6,498
Unfavorable 5% change .....	(11,295)	(6,498)

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

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

#### b) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will be affected by changes in market interest rates.

As a result of the repayment of Tranche B Term Loan on June 28, 2013, the Company settled the interest rates swap and derecognized its interest rate floor financial instrument liability discount, and accordingly, the Company no longer has exposure to the changes in market interest rates as at June 30, 2013 relating to these financial instruments.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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:

	June 30,	
	2013	2012
<b>Interest rate swap</b>		
Favorable 1% change .....	\$ -	\$ 2,306
Unfavorable 1% change .....	-	(493)
	June 30,	
	2013	2012
<b>Interest rate floor</b>		
Favorable 1% change .....	\$ -	\$ 6,697
Unfavorable 1% change .....	-	(17,970)

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

	June 30,	
	2013	2012
<b>Crude oil and NGL related prices</b>		
Favorable 15% change .....	\$ 3,341	\$ 2,525
Unfavorable 15% change .....	(2,981)	(2,525)
<b>Electricity prices</b>		
Favorable 10% change .....	\$ -	\$ 80
Unfavorable 10% change .....	-	(80)

### 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.

As at June 30, 2013 and December 31, 2012, approximately 5%, 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.

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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 includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required and as conditions change. Sufficient funds and the Revolving Credit Facility are available to satisfy the Company's requirements over the next 12 months, and are expected to be available to satisfy the Company's long term requirements. The Company has a Revolving Credit Facility of up to U.S.\$500.0 million and at June 30, 2013, no amount was drawn against the facility.

The terms of the Notes and Revolving Credit Facility require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At June 30, 2013 and 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 June 30, 2013. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	<u>On demand or within one year</u>	<u>Between one and five years</u>	<u>After five years</u>	<u>Total</u>
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest.....	\$ 481,094	\$ -	\$ -	\$ 481,094
Dividend payable .....	33,349	-	-	33,349
Long-term debt.....	-	-	775,600	775,600
Interest payment on long-term debt.....	26,783	211,912	170,130	408,825
Commodity futures.....	57	-	-	57
Commodity swaps.....	6,581	229	-	6,810
Commodity options.....	52	-	-	52
Foreign currency forwards and options.....	1,543	3,697	-	5,240
	<u>\$ 549,459</u>	<u>\$ 215,838</u>	<u>\$ 945,730</u>	<u>\$ 1,711,027</u>

### Capital management

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

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

# Gibson Energy Inc.

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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.

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Total financial liability borrowings.....	\$ 749,415	\$ 637,981
Less: cash and cash equivalents .....	<u>(130,735)</u>	<u>(61,026)</u>
Net debt .....	618,680	576,955
Total share capital .....	<u>1,564,331</u>	<u>1,543,149</u>
<b>Total capital</b> .....	<u>\$ 2,183,011</u>	<u>\$ 2,120,104</u>

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.

### 23 Segmental information

In the first quarter of 2013, the Company combined its Canadian and United States Environmental Services business and as a result realigned its Canadian custom treating and terminal facilities business from the Terminals and Pipelines segment to the Environmental Services segment. Accordingly, results of operations for the current and comparative periods have been reclassified to reflect the realignment.

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

**Terminals and Pipelines** includes fee-based storage and terminalling services and tariff-based pipeline services for crude oil, condensate and refined product. 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; a terminal at Sexsmith, Alberta; pipelines, 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.

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

**Propane and NGL Marketing and Distribution** includes 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.

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

These operating segments of the Company have been derived because they are the segments (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to each segment and assess

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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.

<b>Three months ended June 30, 2013</b>	<b>Terminals &amp; Pipelines</b>	<b>Truck Transportation</b>	<b>Environmental Services</b>	<b>Propane &amp; NGL Marketing &amp; Distribution</b>	<b>Processing &amp; Wellsite Fluids</b>	<b>Marketing</b>	<b>Corporate &amp; other reconciling balances</b>	<b>Total</b>
<b>Statement of operations</b>								
Revenue - external and inter-segmental.....	\$ 31,416	\$ 126,885	\$ 79,431	\$ 231,251	\$ 109,269	\$ 1,327,042	\$ -	\$ 1,905,294
Revenue - inter-segmental .....	(11,539)	(10,425)	(4,029)	(41,485)	(28,995)	(189,095)	-	(285,568)
Revenue - external .....	19,877	116,460	75,402	189,766	80,274	1,137,947	-	1,619,726
Segment profit .....	22,000	17,996	19,260	6,462	5,361	17,937	-	89,016
Depreciation of property, plant and equipment .....	6,224	9,970	10,307	2,560	2,988	66	483	32,598
Amortization of intangible assets .....	454	3,192	5,649	1,599	711	169	570	12,344
General and administrative .....	-	-	-	-	-	-	8,463	8,463
Stock based compensation .....	-	-	-	-	-	-	2,023	2,023
Corporate foreign exchange gain .....	-	-	-	-	-	-	(1,746)	(1,746)
Interest expense .....	-	-	-	-	-	-	12,158	12,158
Gain on financial instruments relating to interest expense....	-	-	-	-	-	-	(17,444)	(17,444)
Interest income .....	-	-	-	-	-	-	(29)	(29)
Foreign exchange loss on long-term debt....	-	-	-	-	-	-	9,036	9,036
Debt extinguishment costs .....	-	-	-	-	-	-	38,209	38,209
Income tax recovery .....	-	-	-	-	-	-	(1,361)	(1,361)
Net loss .....	\$ 15,322	\$ 4,834	\$ 3,304	\$ 2,303	\$ 1,662	\$ 17,702	\$ (50,362)	\$ (5,235)



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<b>Three months ended June 30, 2012</b>	<b>Terminals &amp; Pipelines</b>	<b>Truck Transportation</b>	<b>Environmental Services</b>	<b>Propane &amp; NGL Marketing &amp; Distribution</b>	<b>Processing &amp; Wellsite Fluids</b>	<b>Marketing</b>	<b>Corporate &amp; other reconciling balances</b>	<b>Total</b>
<b>Statement of operations</b>								
Revenue - external and inter-segmental.....	\$ 27,533	\$ 128,233	\$ 6,599	\$ 178,037	\$ 105,812	\$ 868,568	\$ -	\$ 1,314,782
Revenue - inter-segmental .....	(9,688)	(9,724)	(1,675)	(38,908)	(31,593)	(96,975)	-	(188,563)
Revenue - external .....	17,845	118,509	4,924	139,129	74,219	771,593	-	1,126,219
Segment profit .....	19,966	20,950	4	5,585	1,737	16,409	-	64,651
Depreciation of property, plant and equipment .....	6,190	7,603	2,035	2,228	2,178	64	450	20,748
Amortization of intangible assets .....	518	2,875	766	1,415	1,711	169	503	7,957
General and administrative .....	-	-	-	-	-	-	6,746	6,746
Stock based compensation .....	-	-	-	-	-	-	1,050	1,050
Corporate foreign exchange gain .....	-	-	-	-	-	-	(2,069)	(2,069)
Interest expense .....	-	-	-	-	-	-	10,752	10,752
Gain on financial instruments relating to interest expense...	-	-	-	-	-	-	(1,836)	(1,836)
Interest income .....	-	-	-	-	-	-	(96)	(96)
Foreign exchange gain on long-term debt....	-	-	-	-	-	-	10,455	10,455
Income tax provision ....	-	-	-	-	-	-	1,423	1,423
Net income .....	\$ 13,258	\$ 10,472	\$ (2,797)	\$ 1,942	\$ (2,152)	\$ 16,176	\$ (27,378)	\$ 9,521

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

<b>Six months ended June 30, 2013</b>	<b>Terminals &amp; Pipelines</b>	<b>Truck Transportation</b>	<b>Environmental Services</b>	<b>Propane &amp; NGL Marketing &amp; Distribution</b>	<b>Processing &amp; Wellsite Fluids</b>	<b>Marketing</b>	<b>Corporate &amp; other reconciling balances</b>	<b>Total</b>
<b>Statement of operations</b>								
Revenue - external and inter-segmental.....	\$ 62,051	\$ 259,437	\$ 153,576	\$ 514,243	\$ 253,692	\$ 2,535,081	\$ -	\$ 3,778,080
Revenue - inter-segmental .....	(21,413)	(24,729)	(9,767)	(83,078)	(71,630)	(384,726)	-	(595,343)
Revenue - external .....	40,638	234,708	143,809	431,165	182,062	2,150,355	-	3,182,737
Segment profit .....	44,742	38,675	36,195	25,927	23,019	47,426	-	215,984
Depreciation of property, plant and equipment .....	12,874	18,479	19,872	5,102	5,890	131	928	63,276
Amortization of intangible assets .....	972	6,241	11,195	3,189	1,279	339	1,104	24,319
General and administrative .....	-	-	-	-	-	-	16,474	16,474
Stock based compensation .....	-	-	-	-	-	-	3,648	3,648
Corporate foreign exchange gain .....	-	-	-	-	-	-	(3,079)	(3,079)
Interest expense .....	-	-	-	-	-	-	23,808	23,808
Gain on financial instruments relating to interest expense...	-	-	-	-	-	-	(18,252)	(18,252)
Interest income .....	-	-	-	-	-	-	(127)	(127)
Foreign exchange gain on long-term debt....	-	-	-	-	-	-	13,066	13,066
Debt extinguishments costs .....	-	-	-	-	-	-	38,209	38,209
Income tax provision .....	-	-	-	-	-	-	14,149	14,149
Net income .....	\$ 30,896	\$ 13,955	\$ 5,128	\$ 17,636	\$ 15,850	\$ 46,956	\$ (89,928)	\$ 40,493

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<b>Six months ended June 30, 2012</b>	<b>Terminals &amp; Pipelines</b>	<b>Truck Transportation</b>	<b>Environmental Services</b>	<b>Propane &amp; NGL Marketing &amp; Distribution</b>	<b>Processing &amp; Wellsite Fluids</b>	<b>Marketing</b>	<b>Corporate &amp; other reconciling balances</b>	<b>Total</b>
<b>Statement of operations</b>								
Revenue - external and inter-segmental.....	\$ 54,433	\$ 256,942	\$ 18,027	\$ 464,241	\$ 249,368	\$ 1,785,795	\$ -	\$ 2,828,806
Revenue - inter-segmental .....	(18,116)	(23,344)	(7,740)	(67,284)	(66,366)	(224,809)	-	(407,659)
Revenue - external .....	36,317	233,598	10,287	396,957	183,002	1,560,986	-	2,421,147
Segment profit .....	39,355	40,312	3,668	20,919	12,466	26,365	-	143,085
Depreciation of property, plant and equipment .....	12,447	14,621	4,069	4,375	4,171	128	906	40,717
Amortization of intangible assets .....	1,036	5,622	1,600	2,822	3,422	339	1,034	15,875
General and administrative .....	-	-	-	-	-	-	13,563	13,563
Stock based compensation .....	-	-	-	-	-	-	1,902	1,902
Corporate foreign exchange gain .....	-	-	-	-	-	-	(1,078)	(1,078)
Interest expense .....	-	-	-	-	-	-	21,988	21,988
Gain on financial instruments relating to interest expense...	-	-	-	-	-	-	(5,859)	(5,859)
Interest income .....	-	-	-	-	-	-	(194)	(194)
Foreign exchange gain on long-term debt....	-	-	-	-	-	-	(5,924)	(5,924)
Income tax provision ....	-	-	-	-	-	-	12,537	12,537
Net income .....	\$ 25,872	\$ 20,069	\$ (2,001)	\$ 13,722	\$ 4,873	\$ 25,898	\$ (38,875)	\$ 49,558

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

	June 30, 2013		December 31, 2012	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
Terminals and Pipelines .....	\$ 620,059	\$ 30,425	\$ 609,845	\$ 34,534
Truck Transportation.....	397,496	49,721	393,297	49,685
Environmental Services .....	682,307	47,868	652,651	44,382
Propane & NGL Marketing & Distribution .....	347,329	83,715	353,663	85,271
Processing & Wellsite Fluids .....	361,894	57,934	391,733	70,051
Marketing.....	323,772	277,675	278,604	212,983
Corporate & other reconciling balances.....	200,275	1,047,670	116,732	992,137
Total .....	<u>\$ 2,933,132</u>	<u>\$ 1,595,008</u>	<u>\$ 2,796,525</u>	<u>\$ 1,489,043</u>

### Geographic Data

Based on the location of the end user, approximately 21% and 22% of revenue was to customers in the United States for the three and six months ended June 30, 2013, respectively, and approximately 20% and 22% for the three and six months ended June 30, 2012, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 33% in the United States at both June 30, 2013 and December 31, 2012.

### 24 Subsequent Event

On August 7, 2013, the Board declared a quarterly dividend of \$0.275 cents per common share for the three months ended September 30, 2013 on its outstanding common shares. The dividend is payable on October 17, 2013 to shareholders of record at the close of business on September 30, 2013.