

# **Gibson Energy Inc.**

Condensed Consolidated Financial Statements  
March 31, 2015 and 2014  
(in thousands of Canadian dollars)

# Gibson Energy Inc.

## Consolidated Balance Sheet

(tabular amounts in thousands of Canadian dollars)

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 172,545	\$ 131,911
Trade and other receivables (note 5) .....	438,568	641,283
Inventories (note 6) .....	121,935	154,937
Income taxes receivable .....	12,516	12,100
Prepaid expenses and other assets .....	25,875	24,366
Net investment in finance leases .....	915	908
Total current assets .....	<u>772,354</u>	<u>965,505</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 7) .....	1,585,731	1,494,569
Long-term prepaid expenses and other assets (note 8) .....	5,518	39,778
Net investment in finance leases .....	94,180	94,387
Deferred income tax assets .....	3,532	3,532
Intangible assets .....	195,416	191,537
Goodwill .....	811,224	783,721
Total non-current assets .....	<u>2,695,601</u>	<u>2,607,524</u>
<b>Total assets</b> .....	<u>\$ 3,467,955</u>	<u>\$ 3,573,029</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued charges (note 9) .....	391,686	581,463
Dividends payable .....	40,080	37,346
Deferred revenue .....	11,563	19,042
Income taxes payable .....	3,678	122
Total current liabilities .....	<u>447,007</u>	<u>637,973</u>
<b>Non-current liabilities</b>		
Long-term debt (note 10) .....	1,225,585	1,165,368
Provisions (note 11) .....	153,849	136,347
Other long-term liabilities (note 12) .....	7,028	14,810
Deferred income tax liabilities .....	189,756	191,351
Total non-current liabilities .....	<u>1,576,218</u>	<u>1,507,876</u>
Total liabilities .....	<u>2,023,225</u>	<u>2,145,849</u>
<b>Equity</b>		
Share capital (note 13) .....	1,650,932	1,634,001
Contributed surplus .....	19,588	23,841
Accumulated other comprehensive income .....	158,463	93,011
Deficit .....	(384,253)	(323,673)
Total equity .....	<u>1,444,730</u>	<u>1,427,180</u>
<b>Total liabilities and equity</b> .....	<u>\$ 3,467,955</u>	<u>\$ 3,573,029</u>

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Operations

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

	Three months ended	
	March 31,	
	2015	2014
Revenue (note 14) .....	\$ 1,392,342	\$ 2,110,692
Cost of sales (note 16 and 17) .....	1,333,307	2,015,457
Gross profit .....	59,035	95,235
General and administrative expenses (notes 16 and 17).....	14,623	12,626
Other operating income .....	(11,303)	(4,599)
<b>Income from operating activities</b> .....	<b>55,715</b>	<b>87,208</b>
Interest expense .....	20,462	13,662
Interest income .....	(82)	(19)
Foreign exchange loss on long-term debt (note 10) .....	49,515	10,059
<b>(Loss) income before income taxes</b> .....	<b>(14,180)</b>	<b>63,506</b>
Income tax provision (note 15) .....	6,320	17,351
<b>Net (loss) income</b> .....	<b>\$ (20,500)</b>	<b>\$ 46,155</b>
<b>(Loss) earnings per share (note 13)</b>		
Basic.....	\$ (0.16)	\$ 0.38
Diluted.....	\$ (0.16)	\$ 0.37

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Comprehensive Income

(tabular amounts in thousands of Canadian dollars)

	Three months ended	
	March 31,	
	2015	2014
<b>Net (loss) income</b> .....	\$ (20,500)	\$ 46,155
<b>Other comprehensive income</b> .....		
<i>Items that may be reclassified subsequently to statement of operations</i>		
Exchange differences on translating foreign operations.....	65,452	25,485
<b>Other comprehensive income, net of tax</b> .....	65,452	25,485
<b>Comprehensive income</b> .....	\$ 44,952	\$ 71,640

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Changes in Equity

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 13)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Equity
<b>Balance – January 1, 2014</b> .....	\$ 1,585,145	\$ 16,130	\$ 33,879	\$ (266,520)	\$ 1,368,634
Net income .....	-	-	-	46,155	46,155
Other comprehensive income, net of tax .....	-	-	25,485	-	25,485
Comprehensive income .....	-	-	25,485	46,155	71,640
Employee share options:					
Stock based compensation .....	-	3,128	-	-	3,128
Proceeds from exercise of stock options ...	1,577	-	-	-	1,577
Reclassification of contributed surplus on exercise of stock option and other stock awards .....	4,116	(4,116)	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	8,821	-	-	-	8,821
Dividends on common shares (\$0.30 per common share) .....	-	-	-	(36,914)	(36,914)
<b>Balance – March 31, 2014</b> .....	<u>\$ 1,599,659</u>	<u>\$ 15,142</u>	<u>\$ 59,364</u>	<u>\$ (257,279)</u>	<u>\$ 1,416,886</u>
<b>Balance – January 1, 2015</b> .....	\$ 1,634,001	\$ 23,841	\$ 93,011	\$ (323,673)	\$ 1,427,180
Net loss .....	-	-	-	(20,500)	(20,500)
Other comprehensive income, net of tax .....	-	-	65,452	-	65,452
Comprehensive income .....	-	-	65,452	(20,500)	44,952
Employee share options:					
Stock based compensation .....	-	4,466	-	-	4,466
Proceeds from exercise of stock options ....	-	-	-	-	-
Reclassification of contributed surplus on exercise of stock option and other stock awards .....	8,719	(8,719)	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	8,212	-	-	-	8,212
Dividends on common shares (\$0.32 per common share) .....	-	-	-	(40,080)	(40,080)
<b>Balance – March 31, 2015</b> .....	<u>\$ 1,650,932</u>	<u>\$ 19,588</u>	<u>\$ 158,463</u>	<u>\$ (384,253)</u>	<u>\$ 1,444,730</u>

See accompanying notes

# Gibson Energy Inc.

## Consolidated Statement of Cash Flows

(tabular amounts in thousands of Canadian dollars)

	Three months ended	
	March 31,	
	2015	2014
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Income from operating activities .....	\$ 55,715	\$ 87,208
Items not affecting cash		
Depreciation of property, plant and equipment (note 7).....	44,157	35,244
Amortization of intangible assets .....	14,213	13,569
Stock based compensation.....	4,466	3,128
Gain on sale of property, plant and equipment.....	(928)	(471)
Other.....	(119)	(845)
Net gain on fair value movement of financial instruments (note 16).....	(4,071)	(2,223)
Changes in items of working capital		
Trade and other receivables.....	205,715	(8,086)
Inventories.....	34,866	(49,142)
Other current assets .....	(1,019)	7,087
Trade payables and accrued charges .....	(149,399)	(7,275)
Deferred revenue .....	(7,501)	(2,481)
Income taxes.....	(11,029)	(31,682)
Net cash provided by operating activities .....	<u>185,066</u>	<u>44,031</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment.....	(101,787)	(82,786)
Purchase of intangible assets.....	(5,973)	(3,368)
Acquisition (note 4) .....	(8,993)	-
Deposit paid for an acquisition .....	-	(32,553)
Proceeds on sale of assets .....	1,970	1,170
Net cash used in investing activities.....	<u>(114,783)</u>	<u>(117,537)</u>
<b>Financing activities</b>		
Payment of shareholder dividends .....	(37,346)	(33,605)
Proceeds from dividend reinvestment plans.....	8,212	8,821
Interest paid.....	(41,360)	(30,556)
Interest received .....	72	19
Proceeds from exercise of stock options .....	-	1,577
Repayment of credit facilities .....	-	(122,141)
Proceeds from credit facilities.....	-	217,252
Net proceeds on settlement of financial instruments not affecting operating activities (note 16).....	36,582	-
Repayment of finance lease liabilities .....	(139)	(153)
Net cash provided by (used in) financing activities .....	<u>(33,979)</u>	<u>41,214</u>
<b>Effect of exchange rate on cash and cash equivalents .....</b>	<b>4,330</b>	<b>889</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>40,634</b>	<b>(31,403)</b>
<b>Cash and cash equivalents – beginning .....</b>	<b>131,911</b>	<b>97,182</b>
<b>Cash and cash equivalents – end .....</b>	<b>\$ 172,545</b>	<b>\$ 65,779</b>

See accompanying notes

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 1 General Information

Gibson Energy Inc. (“Gibsons” 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”.

Gibsons 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, 2014, 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 May 5, 2015.

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

### 3 Changes in accounting policies and disclosures

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

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

- The annual improvements process addresses issues in the 2010-2012 and 2011-2013 reporting cycles including changes to IFRS 13, Fair value measurements, IFRS 8, Operating segments and IAS 24, Related party transactions. These improvements are effective for annual periods beginning on or after July 1, 2014. The impact of adopting these improvements did not have a material impact on the condensed consolidated financial statements.
- IAS 19, Employee benefits (“IAS 19”), has been amended to clarify the application of requirements to plans that require employees or third parties to contribute toward the cost of the benefits. The amendment to IAS 19 is effective for annual periods beginning on or after July 1, 2014. This amendment did not have a material impact on the condensed consolidated financial statements.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 4 Business combination

#### *Littlehawk Enterprises Ltd (“Littlehawk”)*

On February 1, 2015, the Company acquired all of the issued and outstanding common shares of Littlehawk for total cash consideration of \$9.6 million. Littlehawk is a private Canadian company which operates hydrovac units that specialize in hydro excavation, pressure testing and water hauling for the construction and energy industries.

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

	<u>Fair Value</u>
Trade and other receivables .....	\$ 1,759
Inventories.....	128
Prepaid and other assets .....	57
Property, plant and equipment .....	8,123
Goodwill <sup>(2)</sup> .....	1,059
Intangible assets <sup>(3)</sup> .....	1,754
Other long-term assets .....	48
Trade payables and accrued charges .....	(1,944)
Deferred income tax liabilities .....	(1,391)
Net assets acquired.....	<u>\$ 9,593</u>

(1) Under the agreement, the Company is required to pay the former owner of Littlehawk 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 \$0.6 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) The goodwill arising on the acquisition is not deductible for tax purposes.

(3) Consists of customer relationships of \$0.1 million and non-compete agreements of \$1.6 million.

The goodwill arising from the acquisition is attributable to the expected synergies with the Company’s existing Truck Transportation segment. The goodwill for this acquisition is allocated to the Truck Transportation segment.

The fair value of trade receivables is \$1.8 million, which approximates its gross contractual amount.

The initial accounting for the acquisition is provisional pending the final assessment of working capital and the final valuation of property, plant and equipment and intangible assets.

### 5 Trade and other receivables

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Trade receivables .....	\$ 418,072	\$ 599,546
Allowance for doubtful accounts .....	(3,739)	(4,678)
Trade receivables - net .....	414,333	594,868
Risk management assets (note 16) .....	5,420	18,702
Deposits held as collateral.....	898	898
Broker accounts receivable .....	2,863	4,554
Indirect taxes receivable.....	9,133	15,377
Other .....	5,921	6,884
	<u>\$ 438,568</u>	<u>\$ 641,283</u>



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 6 Inventories

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Crude oil.....	\$ 55,805	\$ 68,883
Diluent .....	1,836	2,889
Asphalt .....	20,997	15,922
Natural gas liquids .....	18,595	41,230
Wellsite fluids and distillate.....	8,302	11,727
Spare parts and other.....	16,400	14,286
	<u>\$ 121,935</u>	<u>\$ 154,937</u>

### 7 Property, plant and equipment

	<u>Land &amp; Buildings</u>	<u>Pipelines and Connections</u>	<u>Tanks</u>	<u>Rolling Stock</u>	<u>Plant, Equipment &amp; Disposal wells</u>	<u>Work in Progress</u>	<u>Total</u>
<b>Cost:</b>							
At January 1, 2015 .....	\$ 159,631	\$ 137,434	\$ 430,153	\$ 454,493	\$ 668,425	\$ 200,400	\$ 2,050,536
Additions.....	348	3,138	998	5,768	15,661	59,855	85,768
Disposals .....	(660)	-	(7)	(2,275)	(242)	-	(3,184)
Acquisitions through business combination (note 4) .....	-	-	-	8,123	-	-	8,123
Reclassifications .....	142	22,064	35,730	-	23,948	(81,884)	-
Change in decommissioning provision (note 11) .....	-	2,300	10,082	-	4,374	-	16,756
Effect of movements in exchange rates .....	1,351	-	862	20,254	15,052	2,467	39,986
At March 31, 2015 .....	<u>\$ 160,812</u>	<u>\$ 164,936</u>	<u>\$ 477,818</u>	<u>\$ 486,363</u>	<u>\$ 727,218</u>	<u>\$ 180,838</u>	<u>\$ 2,197,985</u>
<b>Accumulated depreciation and impairment:</b>							
At January 1, 2015 .....	\$ 25,599	\$ 52,652	\$ 78,211	\$ 184,624	\$ 214,881	\$ -	\$ 555,967
Depreciation.....	1,432	2,573	5,492	15,357	19,303	-	44,157
Disposals .....	-	-	-	(1,942)	(221)	-	(2,163)
Effect of movements in exchange rates .....	117	-	223	8,247	5,706	-	14,293
At March 31, 2015 .....	<u>\$ 27,148</u>	<u>\$ 55,225</u>	<u>\$ 83,926</u>	<u>\$ 206,286</u>	<u>\$ 239,669</u>	<u>\$ -</u>	<u>\$ 612,254</u>
<b>Carrying amounts:</b>							
At January 1, 2015 .....	\$ 134,032	\$ 84,782	\$ 351,942	\$ 269,869	\$ 453,544	\$ 200,400	\$ 1,494,569
At March 31, 2015 .....	133,664	109,711	393,892	280,077	487,549	180,838	1,585,731

Additions to property, plant and equipment includes capitalization of interest of \$2.2 million and \$1.4 million for the three months ended March 31, 2015 and 2014, respectively.

At March 31, 2015 and December 31, 2014, the carrying value includes \$0.4 million and \$0.6 million of assets capitalized under finance lease, respectively.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

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

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Risk management assets (note 16) .....	\$ 886	\$ 34,855
Long-term prepaid expenses .....	377	371
Defined benefit plan assets.....	959	989
Other assets .....	3,296	3,563
	<u>\$ 5,518</u>	<u>\$ 39,778</u>

### 9 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Trade payables .....	\$ 309,752	\$ 445,670
Accrued compensation charges.....	24,575	43,988
Indirect taxes payable .....	3,634	3,157
Risk management liabilities (note 16) .....	1,643	18,135
Broker accounts payable .....	237	183
Defined benefit plan obligations .....	757	757
Interest payable .....	17,171	36,892
Due to Hunting.....	8,999	8,999
Other .....	24,918	23,682
	<u>\$ 391,686</u>	<u>\$ 581,463</u>

### 10 Loans and Borrowings

#### *Revolving Credit Facility*

The Company has established an unsecured revolving credit facility of up to \$500.0 million (the “Revolving Credit Facility”), with a maturity date of August 15, 2019, the proceeds of which are available to provide financing for working capital and other general corporate purposes. The Revolving Credit Facility provides sub-facilities for letters of credit, swingline loans and borrowings in Canadian dollars and U.S. dollars.

The Revolving Credit Facility contains certain covenants including financial covenants requiring the Company to maintain ratios of maximum senior debt leverage ratio of 3.5:1.0, maximum total debt leverage ratio of 4.0:1.0 and minimum interest coverage ratio of 2.5:1.0. As at March 31, 2015, 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 March 31, 2015. The Company had issued letters of credit totalling \$37.9 million and \$57.5 million as at March 31, 2015 and December 31, 2014, respectively.

#### *Long-term debt*

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
U.S.\$550.0 million 6.75% Notes due July 15, 2021 .....	\$ 697,565	\$ 638,055
\$250.0 million 7.00% Notes due July 15, 2020 .....	250,000	250,000
\$300.0 million 5.375% Notes due July 15, 2022 .....	300,000	300,000
Unamortized issue discount and debt issue costs .....	(21,980)	(22,687)
Long-term debt: non-current portion .....	<u>\$ 1,225,585</u>	<u>\$ 1,165,368</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The Notes contain non-financial covenants and customary events of default clauses. As of March 31, 2015 and December 31, 2014, the Company was in compliance with all of its covenants under the Notes. As at March 31, 2015 and December 31, 2014, the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,283.2 million and \$1,193.6 million, respectively.

### Foreign exchange loss on long-term debt

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

	Three months ended	
	March 31,	
	2015	2014
Foreign exchange loss on movement in exchanges rates on U.S. dollar long-term debt ....	\$ 59,510	\$ 20,850
Gain on financial instruments relating to long-term debt (note 16) .....	(9,995)	(10,791)
	<u>\$ 49,515</u>	<u>\$ 10,059</u>

## 11 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:

	Three months	Year ended
	ended March 31, 2015	December 31, 2014
Opening balance.....	\$ 136,347	\$ 91,424
Settlements.....	(1,200)	(4,462)
Assumed in a business combination.....	-	824
Additions.....	-	4,152
Change in estimated future cash flows.....	1,032	14,584
Change in discount rate.....	15,724	25,903
Unwinding of discount.....	815	2,898
Effect of changes in foreign exchange rates.....	1,131	1,024
Closing balance .....	<u>\$ 153,849</u>	<u>\$ 136,347</u>

In order to determine the current provision, the estimated future values were discounted using an average risk-free rate of 2.0% and 2.3% at March 31, 2015 and December 31, 2014, respectively. The provision is expected to be settled up to 40 years into the future.

## 12 Other long-term liabilities

	March 31, 2015	December 31, 2014
Defined benefit plan obligations .....	\$ 5,859	\$ 5,939
Risk management liabilities (note 16).....	-	8,269
Other .....	1,169	602
	<u>\$ 7,028</u>	<u>\$ 14,810</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 13 Share capital

	<u>Number of shares</u>	<u>Share Capital</u>
At January 1, 2015 .....	124,488,545	\$ 1,634,001
Issuance of common shares in connection with the equity incentive plan .....	391,713	-
Reclassification of contributed surplus on exercise of stock options and other stock awards .....	-	8,719
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs .....	369,599	8,212
At March 31, 2015 .....	<u>125,249,857</u>	<u>\$ 1,650,932</u>

### Share based payments

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

	<u>Stock Options</u>		<u>Restricted Share Units</u>	<u>Performance Share Units</u>	<u>Deferred Share Units</u>
	<u>Number of shares</u>	<u>Weighted average exercise price (in dollars)</u>	<u>Number of Shares</u>		
Balance at January 1, 2015.....	2,485,215	23.33	544,753	628,959	146,786
Granted.....	773,429	25.33	307,793	492,404	76,532
Exercised and released for common shares.....	-	-	(230,012)	(97,200)	(64,501)
Forfeited.....	-	-	(7,016)	(8,101)	-
Balance at March 31, 2015.....	<u>3,258,644</u>	<u>23.80</u>	<u>615,518</u>	<u>1,016,062</u>	<u>158,817</u>
Vested .....	<u>1,509,258</u>	<u>20.36</u>	<u>108,015</u>	<u>-</u>	<u>16,520</u>

At March 31, 2015, awards available to grant under the equity incentive plan were approximately 7.5 million.

### Per share amounts

	<u>Three months ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Weighted average common shares outstanding - Basic .....	124,892	122,641
Dilutive effect of:		
Stock options and other awards .....	-	1,641
Weighted average common shares outstanding - Diluted .....	<u>124,892</u>	<u>124,282</u>

The dilutive effect of 1.8 million stock options and other awards for the three months ended March 31, 2015 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 share.

### 14 Revenue

	<u>Three months ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Products .....	\$ 1,162,931	\$ 1,858,168
Services .....	229,411	252,524
	<u>\$ 1,392,342</u>	<u>\$ 2,110,692</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 15 Income tax provision

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

	Three months ended March 31,	
	2015	2014
Current .....	\$ 14,142	\$ 20,190
Deferred .....	(7,822)	(2,839)
Income tax provision.....	<u>\$ 6,320</u>	<u>\$ 17,351</u>
Effective income tax rate .....	<u>(44.6)%</u>	<u>27.3%</u>

### 16 Financial instruments

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

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

	March 31, 2015		December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Commodity futures .....	\$ 1,372	\$ 734	\$ 4,850	\$ 490
Commodity swaps.....	3,085	599	13,847	16,928
Commodity options.....	578	21	-	-
Equity swaps .....	1,249	-	-	-
Foreign currency forwards .....	-	289	34,860	717
Foreign currency options .....	22	-	-	8,269
Total.....	<u>\$ 6,306</u>	<u>\$ 1,643</u>	<u>\$ 53,557</u>	<u>\$ 26,404</u>
Less non-current portion:				
Equity swaps.....	886	-	-	-
Foreign currency forward contracts .....	-	-	34,855	-
Foreign currency options .....	-	-	-	8,269
	<u>886</u>	<u>-</u>	<u>34,855</u>	<u>8,269</u>
Current portion.....	<u>\$ 5,420</u>	<u>\$ 1,643</u>	<u>\$ 18,702</u>	<u>\$ 18,135</u>

At December 31, 2014, the Company had U.S. dollar forward contracts to buy U.S. dollars on a notional amount of U.S.\$250.0 million at a weighted average rate of \$1.0242 for U.S.\$1.00 expiring on September 15, 2017 and the Company had also sold U.S. dollar options at a strike price of \$1.295 for U.S.\$1.00 on a notional amount of U.S.\$250.0 million. During the three month ended March 31, 2015, the Company received cash of \$53.3 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$250.0 million. Additionally, the Company paid cash of \$16.7 million to settle U.S dollar options for a notional amount of U.S. \$250.0 million.

During the three month ended March 31, 2015, the Company entered into equity swap contracts to help manage equity price and dilution exposure to shares that it issues under its stock based compensation programs. At March 31, 2015, the Company had entered into equity swaps on a total of 550,000 notional common shares, at an initial price of \$23.65 per share for settlement over a three year period.

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

The fair value of financial instrument contracts by fair value hierarchy at March 31, 2015 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets from financial instrument contracts</b>				
Commodity futures .....	\$ 1,372	\$ 1,372	\$ -	\$ -
Commodity swaps .....	3,085	-	3,085	-
Commodity options .....	578	-	578	-
Equity swaps.....	1,249	1,249	-	-
Foreign currency options .....	22	-	22	-
Total assets .....	<u>\$ 6,306</u>	<u>\$ 2,621</u>	<u>\$ 3,685</u>	<u>-</u>
<b>Liabilities from financial instrument contracts</b>				
Commodity futures .....	\$ 734	\$ 734	\$ -	\$ -
Commodity swaps .....	599	-	599	-
Commodity options .....	21	-	21	-
Foreign currency forwards.....	289	-	289	-
Total liabilities.....	<u>\$ 1,643</u>	<u>\$ 734</u>	<u>\$ 909</u>	<u>-</u>

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

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

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<u>2015</u>	<u>2014</u>
Cost of sales .....	\$ (2,822)	\$ (2,223)
General and administrative .....	(1,249)	-
Foreign exchange loss on long-term debt (note 10).....	(9,995)	(10,791)
	<u>\$ (14,066)</u>	<u>\$ (13,014)</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 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:

	March 31,	
	2015	2014
<b>U.S. Dollar Forwards and Options</b>		
Favorable 5% change .....	\$ 2,303	\$ 3,998
Unfavorable 5% change .....	(2,437)	(4,059)
<b>U.S. Dollar long-term debt Forwards and the related Options</b>		
Favorable 5% change .....	\$ -	\$ 10,773
Unfavorable 5% change .....	-	(10,773)

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

	March 31,	
	2015	2014
<b>Crude oil and NGL related prices</b>		
Favorable 15% change .....	\$ 5,189	\$ 6,323
Unfavorable 15% change .....	(3,989)	(6,323)

If the Company's share price increased or decreased by 10%, the impact on net income and equity would be as follows:

	March 31,	
	2015	2014
<b>Equity Swaps</b>		
Favorable 10% change .....	\$ 1,050	\$ -
Unfavorable 10% change .....	1,050	-

### Liquidity risk

Set out below is maturity analyses of certain of the Company's financial contractual obligations as at March 31, 2015. 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
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest .....	\$ 372,872	\$ -	\$ -	\$ 372,872
Dividend payable .....	40,080	-	-	40,080
Long-term debt .....	-	-	1,247,565	1,247,565
Interest payment on long-term debt .....	80,711	322,842	225,070	628,623
Commodity futures .....	734	-	-	734
Commodity swaps .....	599	-	-	599
Commodity options .....	21	-	-	21
Foreign currency forwards and options .....	289	-	-	289
	<u>\$ 495,306</u>	<u>\$ 322,842</u>	<u>\$1,472,635</u>	<u>\$ 2,290,783</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### 17 Employee salaries and benefits

	Three months ended March 31,	
	2015	2014
Employee salaries and benefits .....	\$ 83,733	\$ 76,298

Employee salaries and benefits have been expensed as follows:

	Three months ended March 31,	
	2015	2014
Cost of sales .....	\$ 73,694	\$ 68,285
General and administrative .....	10,039	8,013
	<u>\$ 83,733</u>	<u>\$ 76,298</u>

### 18 Segmental information

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

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

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

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

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

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

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

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

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.



# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

<b>Three months ended March 31, 2015</b>	<b>Terminals &amp; Pipelines</b>	<b>Environmental Services</b>	<b>Truck Transportation</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 .....	\$ 42,245	\$ 84,404	\$ 130,154	\$ 294,220	\$ 92,410	\$ 1,020,738	\$ -	\$ 1,664,171
Revenue - inter- segmental .....	(11,799)	(9,771)	(15,595)	(37,858)	(26,773)	(170,033)	-	(271,829)
Revenue - external .....	30,446	74,633	114,559	256,362	65,637	850,705	-	1,392,342
Segment profit .....	32,400	16,588	16,544	38,334	7,794	11,126	-	122,786
Depreciation of property, plant and equipment.	9,518	16,193	10,333	4,111	3,354	69	579	44,157
Amortization of intangible assets .....	335	5,882	3,256	2,304	1,247	171	1,018	14,213
General and administrative .....	-	-	-	-	-	-	8,560	8,560
Stock based compensation .....	-	-	-	-	-	-	4,466	4,466
Corporate foreign exchange gain .....	-	-	-	-	-	-	(4,325)	(4,325)
Interest expense .....	-	-	-	-	-	-	20,462	20,462
Interest income .....	-	-	-	-	-	-	(82)	(82)
Foreign exchange loss on long-term debt .....	-	-	-	-	-	-	49,515	49,515
Income tax provision .....	-	-	-	-	-	-	6,320	6,320
Net income (loss) .....	\$ 22,547	\$ (5,487)	\$ 2,955	\$ 31,919	\$ 3,193	\$ 10,886	\$ (86,513)	\$ (20,500)

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

<b>Three months ended March 31, 2014</b>	<b>Terminals &amp; Pipelines</b>	<b>Environmental Services</b>	<b>Truck Transportation</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 .....	\$ 37,134	\$ 91,669	\$ 137,494	\$ 402,544	\$ 175,246	\$ 1,628,330	\$ -	\$ 2,472,417
Revenue - inter- segmental .....	(15,698)	(10,245)	(16,383)	(40,973)	(63,080)	(215,346)	-	(361,725)
Revenue - external.....	21,436	81,424	121,111	361,571	112,166	1,412,984	-	2,110,692
Segment profit.....	26,731	21,979	19,884	34,405	17,084	25,777	-	145,860
Depreciation of property, plant and equipment.	7,125	12,884	9,121	2,671	2,840	67	536	35,244
Amortization of intangible assets.....	522	6,209	3,249	1,530	1,246	170	643	13,569
General and administrative .....	-	-	-	-	-	-	8,319	8,319
Stock based compensation.....	-	-	-	-	-	-	3,128	3,128
Corporate foreign exchange gain .....	-	-	-	-	-	-	(1,608)	(1,608)
Interest expense .....	-	-	-	-	-	-	13,662	13,662
Interest income .....	-	-	-	-	-	-	(19)	(19)
Foreign exchange loss on long-term debt.....	-	-	-	-	-	-	10,059	10,059
Income tax provision.....	-	-	-	-	-	-	17,351	17,351
Net income .....	<u>\$ 19,084</u>	<u>\$ 2,886</u>	<u>\$ 7,514</u>	<u>\$ 30,204</u>	<u>\$ 12,998</u>	<u>\$ 25,540</u>	<u>\$ (52,071)</u>	<u>\$ 46,155</u>

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

	<b>Three months ended March 31, 2015</b>		<b>Three months ended March 31, 2014</b>	
	<b>Property, plant and equipment</b>	<b>Intangible Assets</b>	<b>Property, plant and equipment</b>	<b>Intangible Assets</b>
Terminals and Pipelines.....	\$ 52,546	\$ 551	\$ 56,927	\$ 446
Environmental Services .....	15,185	68	15,686	852
Truck Transportation .....	16,249	2,494	14,284	910
Propane & NGL Marketing & Distribution.....	2,174	35	4,185	398
Processing & Wellsite Fluids .....	7,179	3	1,273	-
Corporate & other .....	558	4,130	5,123	762
	<u>\$ 93,891</u>	<u>\$ 7,281</u>	<u>\$ 97,478</u>	<u>\$ 3,368</u>

# Gibson Energy Inc.

## Notes to Consolidated Financial Statements

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

### **Geographic Data**

Based on the location of the end user, approximately 20% and 20% of revenue was from customers in the United States for the year ended March 31, 2015 and 2014, respectively.

The Company's non-current assets, excluding investment in finance leases and deferred tax assets, are primarily concentrated in Canada with 28% and 31% in the United States at March 31, 2015 and 2014, respectively.

### **19 Subsequent Events**

On May 5, 2015, the Company announced that the Board declared a quarterly dividend of \$0.32 per common share for the quarter ending March 31, 2015 on its outstanding common shares. The common share dividend is payable on July 17, 2015 to shareholders of record at the close of business on June 30, 2015.