

Gibson Energy Inc.

Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)
(in thousands of Canadian dollars)

Gibson Energy Inc.
Condensed Consolidated Balance Sheet
(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 125,275	\$ 97,182
Trade and other receivables (note 5)	681,741	592,850
Inventories (note 6)	206,515	156,419
Income taxes receivable, net	11,406	7,534
Prepaid expenses and other assets	28,287	25,170
Net investment in finance leases (note 9).....	870	765
Total current assets.....	<u>1,054,094</u>	<u>879,920</u>
Non-current assets		
Property, plant and equipment (note 7)	1,392,218	1,119,856
Long-term prepaid expenses and other assets (note 8).....	33,237	19,640
Net investment in finance leases (note 9).....	92,570	93,236
Deferred income tax assets.....	8,224	8,187
Intangible assets (note 10).....	194,724	202,395
Goodwill (note 11)	775,106	726,148
Total non-current assets	<u>2,496,079</u>	<u>2,169,462</u>
Total assets	<u>\$ 3,550,173</u>	<u>\$ 3,049,382</u>
Liabilities		
Current liabilities		
Trade payables and accrued charges (note 12).....	621,464	565,179
Dividends payable.....	37,248	33,605
Deferred revenue	11,366	2,847
Income taxes payable	958	20,535
Total current liabilities	<u>671,036</u>	<u>622,166</u>
Non-current liabilities		
Long-term debt (note 13)	1,143,126	757,566
Provisions (note 14)	108,910	91,424
Other long-term liabilities (note 15).....	13,200	15,487
Deferred income tax liabilities	199,740	194,105
Total non-current liabilities	<u>1,464,976</u>	<u>1,058,582</u>
Total liabilities	<u>2,136,012</u>	<u>1,680,748</u>
Equity		
Share capital (note 16)	1,624,656	1,585,145
Contributed surplus	20,208	16,130
Accumulated other comprehensive income.....	68,508	33,879
Deficit.....	(299,211)	(266,520)
Total equity	<u>1,414,161</u>	<u>1,368,634</u>
Total liabilities and equity	<u>\$ 3,550,173</u>	<u>\$ 3,049,382</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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue (note 18)	\$ 2,360,007	\$ 1,841,894	\$ 6,597,064	\$ 5,024,631
Cost of sales (note 19, 20 and 24)	2,294,804	1,767,404	6,392,727	4,821,135
Gross profit	65,203	74,490	204,337	203,496
General and administrative expenses (note 19 and 20)	13,805	12,389	40,107	34,543
Other operating expenses (income) (note 21)	(3,078)	417	(7,919)	(4,077)
Income from operating activities	54,476	61,684	172,149	173,030
Interest expense	18,774	14,901	47,767	38,709
Gain on financial instruments relating to interest expense (note 24)	-	-	-	(18,252)
Interest income	(225)	(257)	(274)	(384)
Foreign exchange loss (gain) on long-term debt (note 13)	18,939	(8,984)	18,959	4,082
Debt extinguishment costs (note 13)	-	-	-	38,209
Income before income taxes	16,988	56,024	105,697	110,666
Income tax provision (note 22)	8,446	13,425	27,162	27,574
Net income	\$ 8,542	\$ 42,599	\$ 78,535	\$ 83,092
Earnings per share (note 16)				
Basic	\$ 0.07	\$ 0.35	\$ 0.64	\$ 0.69
Diluted	\$ 0.07	\$ 0.35	\$ 0.63	\$ 0.68

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 8,542	\$ 42,599	\$ 78,535	\$ 83,092
Other comprehensive income (loss)				
Items that may be reclassified subsequently to consolidated statement of operations:				
Exchange differences of translating foreign operations	32,306	(13,925)	34,629	21,060
Other comprehensive income (loss), net of tax	32,306	(13,925)	34,629	21,060
Comprehensive income	\$ 40,848	\$ 28,674	\$ 113,164	\$ 104,152

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	Deficit	Total Equity
Balance – January 1, 2013	\$ 1,543,149	\$ 11,297	\$ (9,166)	\$ (237,798)	\$ 1,307,482
Net income	-	-	-	83,092	83,092
Other comprehensive income, net of tax	-	-	21,060	-	21,060
Comprehensive income			21,060	83,092	104,152
Employee share options:					
Stock based compensation	-	6,013	-	-	6,013
Proceeds from exercise of stock options ...	892	-	-	-	892
Reclassification of contributed surplus on exercise of stock options and other stock awards	3,171	(3,171)	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs.....	27,597	-	-	-	27,597
Dividends on common shares.....	-	-	-	(100,077)	(100,077)
Balance – September 30, 2013	<u>\$ 1,574,809</u>	<u>\$ 14,139</u>	<u>\$ 11,894</u>	<u>\$ (254,783)</u>	<u>\$ 1,346,059</u>
 Balance – January 1, 2014	 \$ 1,585,145	 \$ 16,130	 \$ 33,879	 \$ (266,520)	 \$ 1,368,634
Net income	-	-	-	78,535	78,535
Other comprehensive income, net of tax	-	-	34,629	-	34,629
Comprehensive income	-	-	34,629	78,535	113,164
Employee share options:					
Stock based compensation	-	10,150	-	-	10,150
Proceeds from exercise of stock options ...	5,942	-	-	-	5,942
Reclassification of contributed surplus on exercise of stock options and other stock awards	6,072	(6,072)	-	-	-
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs.....	27,497	-	-	-	27,497
Dividends on common shares.....	-	-	-	(111,226)	(111,226)
Balance – September 30, 2014	<u>\$ 1,624,656</u>	<u>\$ 20,208</u>	<u>\$ 68,508</u>	<u>\$ (299,211)</u>	<u>\$ 1,414,161</u>

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash provided by (used in)				
Operating activities				
Income from operating activities	\$ 54,476	\$ 61,684	\$ 172,149	\$ 173,030
Items not affecting cash				
Depreciation of property, plant and equipment (note 19).....	39,261	31,927	110,302	95,203
Amortization of intangible assets (note 19).....	14,249	12,533	41,285	36,852
Stock based compensation (note 20).....	3,642	2,365	10,150	6,013
Loss (gain) on sale of property, plant and equipment (note 21)	(373)	8	(1,905)	(365)
Other	(1,139)	87	(4,867)	(2,736)
Net loss (gain) on fair value movement of financial instruments (note 24)	1,960	(5,233)	(885)	271
Changes in items of working capital				
Trade and other receivables.....	(100,022)	(1,980)	(49,714)	(39,544)
Inventories	14,363	(32,654)	(42,441)	(26,500)
Other current assets	(8,873)	(19,047)	(1,024)	(16,156)
Trade payables and accrued charges	22,272	36,590	19,143	47,474
Deferred revenue	1,877	(4,668)	8,055	515
Income taxes.....	(12,910)	(3,320)	(61,023)	(27,278)
Net cash provided by operating activities	28,783	78,292	199,225	246,779
Investing activities				
Purchase of property, plant and equipment.....	(93,402)	(70,962)	(249,571)	(151,711)
Purchase of intangible assets.....	(6,700)	(2,147)	(14,147)	(6,077)
Acquisitions (note 4).....	(99,754)	-	(131,196)	-
Proceeds on sale of assets	948	749	4,179	2,160
Net cash used in investing activities	(198,908)	(72,360)	(390,735)	(155,628)
Financing activities				
Payment of shareholder dividends	(37,064)	(33,349)	(107,583)	(97,832)
Proceeds from dividend reinvestment plan and stock dividend programs	9,100	10,157	27,497	27,597
Interest paid.....	(29,468)	(273)	(61,129)	(19,531)
Interest received.....	246	257	294	380
Proceeds from exercise of stock options.....	3,137	215	5,942	892
Proceeds from long-term debt, net of debt premium and discount	-	-	358,595	764,173
Payment of debt issue and financing costs.....	(1,710)	(2,022)	(6,540)	(15,623)
Repayment of long-term debt	-	-	-	(678,098)
Net proceeds on settlement of derivative financial instruments not affecting operating activities.....	-	-	582	8,723
Proceeds from credit facilities.....	-	-	463,601	124,000
Repayment of credit facilities	-	-	(463,494)	(156,385)
Repayment of finance lease liabilities.....	(102)	-	(377)	-
Net cash (used in) provided by financing activities	(55,861)	(25,015)	217,388	(41,704)
Effect of exchange rate on cash and cash equivalents.....	3,208	(1,172)	2,215	7
Net increase (decrease) in cash and cash equivalents.....	(222,778)	(20,255)	28,093	49,454
Cash and cash equivalents – beginning of period.....	348,053	130,735	97,182	61,026
Cash and cash equivalents – end of period	\$ 125,275	\$ 110,480	\$ 125,275	\$ 110,480

See accompanying notes

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(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, 2013, 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 November 4, 2014.

These condensed 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, 2013.

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

- IAS 32, Financial Instruments, Presentation (“IAS 32”) has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. The Company adopted these amendments on January 1, 2014 which did not result in any material impact on the condensed consolidated financial statements.
- IFRIC 21, Accounting for Levies imposed by governments (“IFRIC 21”) was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Company adopted IFRIC 21 on January 1, 2014 which did not result in any material impact on the condensed consolidated financial statements.
- IFRS 2, Share based payments has been amended to clarify the definition of vesting conditions. The amendment clarifies that the vesting condition is either a service or performance condition and separately defines these two conditions. The Company adopted these amendments on July 1, 2014 which did not result in any material impact on the condensed consolidated financial statements.
- IFRS 3, Business combinations has been amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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profit and loss. The Company adopted these amendments on July 1, 2014 which did not result in any impact on the condensed consolidated financial statements.

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

- The annual improvements process addresses issues in the 2012-2014 reporting cycles including changes to IFRS 5, Non-current assets held for sale and discontinued operations, IFRS 7, Financial instruments: Disclosures, IAS 19, Employee benefits, and IAS 34, Interim financial reporting. These improvements are effective for periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- The annual improvements process addresses issues in the 2010-2012 and 2011-2013 reporting cycles including changes to IFRS 13, Fair value measurements, IFRS 8, Operating segments and IAS 24, Related party transactions. These improvements are effective for annual periods beginning on or after July 1, 2014. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- IAS 19, Employee benefits, has been amended to clarify the application of requirements to plans that require employees or third parties to contribute toward the cost of the benefits. The amendment to IAS 19 is effective for annual periods beginning on or after July 1, 2014. The Company is currently evaluating the impact of adopting these improvements on its consolidated financial statements.
- IAS 16, Property Plant and Equipment (“IAS 16”), and IAS 38, Intangible Assets (“IAS 38”), has been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 10, Consolidated financial statements (“IFRS 10”), and IAS 28, Investments in associates and joint ventures (“IAS 28”), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 11, Accounting for acquisitions of interests in joint operations (“IFRS 11”), has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendment to IFRS 11 is effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of adopting these amendments on its consolidated financial statements.
- IFRS 15, Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.
- The IASB completed the final element of its comprehensive publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

4 Business Combinations

Cal-Gas Inc. ("Cal-Gas")

On August 1, 2014, the Company acquired all of the issued and outstanding common shares of Cal-Gas for total cash consideration of \$94.8 million, including estimated closing adjustments which are subject to finalization. Cal-Gas is a provider of propane and related equipment, service and delivery to commercial, industrial and residential customers in Western Canada and Northwestern Ontario.

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

	<u>Fair Value</u>
Trade and other receivables.....	\$ 11,236
Inventories.....	1,457
Prepaid and other assets	323
Property, plant and equipment	64,401
Goodwill ⁽¹⁾	30,142
Intangible assets ⁽²⁾	6,870
Other long-term assets.....	105
Trade payables and accrued charges	(12,574)
Deferred revenue	(442)
Provisions.....	(90)
Deferred income tax liabilities	(6,587)
Net assets acquired ⁽³⁾	<u>\$ 94,841</u>

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

(2) *Consists of customer relationships of \$4.5 million and non-compete agreements of \$2.4 million.*

(3) *At September 30, 2014, \$4.3 million is owed to the Company with respect to the closing adjustments.*

Acquisition-related costs of \$0.3 million have been charged to general and administrative expenses in the consolidated statement of operations for the three and nine months ended September 30, 2014.

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

The fair value of trade receivables is \$11.2 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.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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

Stittco Energy Limited (“Stittco”)

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

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

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

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

(2) Consists of customer relationships of \$5.4 million, and non-compete agreements of \$0.2 million.

Acquisition-related costs of \$0.2 million have been charged to general and administrative expenses in the consolidated statement of operations for the three and nine months ended September 30, 2014.

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

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

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>September 30, 2014</u>	<u>December 31, 2013</u>
Trade receivables.....	\$ 658,905	\$ 583,068
Allowance for doubtful accounts.....	(4,400)	(4,092)
Trade receivables - net	<u>654,505</u>	<u>578,976</u>
Risk management assets (note 24)	5,660	1,120
Deposits held as collateral	897	1,145
Broker accounts receivable.....	3,020	1,326
Indirect taxes receivable	7,920	5,967
Other.....	9,739	4,316
Total trade and other receivables.....	<u>\$ 681,741</u>	<u>\$ 592,850</u>

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

6 Inventories

	September 30, 2014	December 31, 2013
Crude oil.....	\$ 87,149	\$ 77,610
Diluent.....	4,937	3,561
Asphalt.....	15,201	14,638
Natural gas liquids.....	71,915	34,749
Wellsite fluids and distillate.....	12,855	13,003
Spare parts and other.....	14,458	12,858
	<u>\$ 206,515</u>	<u>\$ 156,419</u>

7 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At January 1, 2014.....	\$113,292	\$ 128,360	\$ 266,947	\$ 400,671	\$ 524,655	\$ 86,464	\$ 1,520,389
Additions.....	24,711	6,136	4,066	23,322	38,265	179,719	276,219
Disposals.....	(22)	-	(744)	(7,316)	(812)	-	(8,894)
Acquisitions through business combinations (note 4).....	13,150	-	53,879	8,016	5,009	-	80,054
Reclassifications.....	6,505	517	4,078	2,866	53,219	(67,185)	-
Change in decommissioning provision (note 14).....	-	1,943	4,444	-	9,625	-	16,012
Effect of movements in exchange rates.....	691	-	813	9,526	6,970	235	18,235
At September 30, 2014.....	<u>\$158,327</u>	<u>\$ 136,956</u>	<u>\$ 333,483</u>	<u>\$ 437,085</u>	<u>\$ 636,931</u>	<u>\$ 199,233</u>	<u>\$ 1,902,015</u>
Accumulated depreciation:							
At January 1, 2014.....	\$ 20,706	\$ 43,579	\$ 58,377	\$ 132,214	\$ 145,657	\$ -	\$ 400,533
Depreciation.....	3,429	6,683	12,463	40,186	47,541	-	110,302
Disposals.....	(22)	-	(206)	(5,905)	(522)	-	(6,655)
Effect of movements in exchange rates.....	44	-	423	3,301	1,849	-	5,617
At September 30, 2014.....	<u>\$ 24,157</u>	<u>\$ 50,262</u>	<u>\$ 71,057</u>	<u>\$ 169,796</u>	<u>\$ 194,525</u>	<u>\$ -</u>	<u>\$ 509,797</u>
Carrying amounts:							
At January 1, 2014.....	\$ 92,586	\$ 84,781	\$ 208,570	\$ 268,457	\$ 378,998	\$ 86,464	\$ 1,119,856
At September 30, 2014.....	134,170	86,694	262,426	267,289	442,406	199,233	1,392,218

Additions to property, plant and equipment include capitalization of interest of \$1.9 million and \$1.0 million in the three months ended September 30, 2014 and 2013, respectively. Additions to property, plant and equipment include capitalization of interest of \$5.4 million and \$1.7 million for the nine months ended September 30, 2014 and 2013, respectively.

At September 30, 2014 and December 31, 2013, the carrying value includes \$1.1 million and \$2.3 million, respectively, of assets capitalized under finance leases.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

8 Long-term prepaid expenses and other assets

	September 30, 2014	December 31, 2013
Long-term prepaid expenses	\$ 382	\$ 442
Risk management assets (note 24)	28,565	15,646
Pension assets.....	1,179	1,058
Other assets	3,111	2,494
Total	<u>\$ 33,237</u>	<u>\$ 19,640</u>

9 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:

	September 30, 2014	December 31, 2013
Total minimum lease payments receivable	\$ 346,688	\$ 363,742
Residual value.....	35,182	35,182
Unearned income	(288,430)	(304,923)
	93,440	94,001
Less: current portion	870	765
Net investment in finance lease: non-current portion.....	<u>\$ 92,570</u>	<u>\$ 93,236</u>

10 Intangible assets

	Brands	Customer relationships	Long-term Contracts	Non-compete agreements	Technology	Software	License and Permits	Total
Cost:								
At January 1, 2014	\$ 50,465	\$ 235,096	\$ 34,653	\$ 23,368	\$ 2,579	\$ 27,911	\$ 3,448	\$ 377,520
Additions.....	-	729	-	-	-	13,673	-	14,402
Acquisitions through business combinations (note 4)	-	9,938	-	2,592	-	-	-	12,530
Effect of movements in exchange rates	529	7,269	1,616	352	52	98	142	10,058
At September 30, 2014..	<u>\$ 50,994</u>	<u>\$ 253,032</u>	<u>\$ 36,269</u>	<u>\$ 26,312</u>	<u>\$ 2,631</u>	<u>\$ 41,682</u>	<u>\$ 3,590</u>	<u>\$ 414,510</u>
Accumulated amortization:								
At January 1, 2014	\$ 28,142	\$ 101,478	\$ 14,801	\$ 17,468	\$ 1,980	\$ 9,944	\$ 1,312	\$ 175,125
Amortization	8,538	23,429	2,902	2,119	252	3,167	878	41,285
Effect of movements in exchange rates	359	1,949	635	323	26	(6)	90	3,376
At September 30, 2014..	<u>\$ 37,039</u>	<u>\$ 126,856</u>	<u>\$ 18,338</u>	<u>\$ 19,910</u>	<u>\$ 2,258</u>	<u>\$ 13,105</u>	<u>\$ 2,280</u>	<u>\$ 219,786</u>
Carrying amounts:								
At January 1, 2014.....	\$ 22,323	\$ 133,618	\$ 19,852	\$ 5,900	\$ 599	\$ 17,967	\$ 2,136	\$ 202,395
At September 30, 2014 .	13,955	126,176	17,931	6,402	373	28,577	1,310	194,724

Gibson Energy Inc.

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11 Goodwill

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

	Nine months ended September 30, 2014	Year ended December 31, 2013
Opening balance	\$ 726,148	\$ 709,358
Additions through business combinations (note 4)	34,979	-
Effect of movements in exchange rates	13,979	16,790
Closing balance	<u>\$ 775,106</u>	<u>\$ 726,148</u>

12 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	September 30, 2014	December 31, 2013
Trade payables	\$ 523,695	\$ 456,955
Accrued compensation charges	37,664	36,591
Indirect taxes payable	2,300	1,980
Risk management liabilities (note 24)	6,116	2,465
Broker accounts payable	431	2,610
Pension liabilities	825	825
Interest payable	17,412	27,894
Due to Hunting PLC (note 17)	8,999	9,199
Other	24,022	26,660
	<u>\$ 621,464</u>	<u>\$ 565,179</u>

13 Loans and borrowings

Revolving Credit Facility

On June 28, 2013, the Company established a revolving credit facility of up to \$500.0 million (the “Revolving Credit Facility”), the proceeds of which are available to provide financing for working capital and other general corporate purposes. On August 20, 2014, the Company amended the Revolving Credit Facility to among other things, release all security required by the lenders and to extend the maturity date from June 28, 2018 to August 15, 2019.

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

The Revolving Credit Facility contains certain covenants including financial covenants requiring the Company to maintain ratios of maximum senior debt leverage ratio of 3.5:1.0, maximum total debt leverage ratio of 4.0:1.0 and minimum interest coverage ratio of 2.5:1.0. As at September 30, 2014, the Company was in compliance with all covenants under the Revolving Credit Facility.

The Company has no amounts drawn against the Revolving Credit Facility as at September 30, 2014, and December 31, 2013. The Company had issued letters of credit totalling \$39.4 million and \$57.4 million as at September 30, 2014 and December 31, 2013, respectively.

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Long-term debt

	September 30, 2014	December 31, 2013
U.S.\$550.0 million 6.75% Notes due July 15, 2021 (December 31, 2013: U.S.\$500.0 million).....	\$ 616,440	\$ 531,800
\$250.0 million 7.00% Notes due July 15, 2020.....	250,000	250,000
\$300.0 million 5.375% Notes due July 15, 2022.....	300,000	-
Unamortized issue discount and debt issue costs	(23,314)	(24,234)
Long-term debt: non-current portion.....	<u>\$ 1,143,126</u>	<u>\$ 757,566</u>

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

Interest is payable semi-annually on January 15 and July 15 of each year the Notes are outstanding. In connection with the issuance of the Notes on June 12, 2014, the Company incurred debt issue costs of \$5.4 million and received a debt premium of \$4.3 million, resulting in a net reduction of \$1.1 million to the carrying amount of the long term debt in the nine months ended September 30, 2014. A portion of the proceeds from the Notes issued in 2014 was used to repay all outstanding indebtedness under the Revolving Credit Facility.

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

The Notes contain non-financial covenants and customary events of default clauses. As of September 30, 2014, the Company was in compliance with all of its covenants under the Notes.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Foreign exchange loss (gain) on movement in exchange rates on U.S. dollar long-term debt..	\$ 29,260	\$ (11,350)	\$ 30,385	\$ 24,902
Loss (gain) on financial instruments relating to long-term debt (note 24)	(10,321)	2,366	(11,426)	(20,820)
Foreign exchange loss (gain) on long-term debt ...	<u>\$ 18,939</u>	<u>\$ (8,984)</u>	<u>\$ 18,959</u>	<u>\$ 4,082</u>

Debt extinguishment costs

Concurrent with the completion of the issuance of the Notes and the establishment of the Revolving Credit Facility in 2013, the Company terminated its previous senior secured first lien credit facility which comprised of the Tranche B Term Loan facility of U.S.\$650.0 million and a revolving credit facility of up to U.S.\$375.0 million. Accordingly, the Company recognised debt extinguishment expenses of \$38.2 million comprising unamortized debt issue costs of \$22.8 million, unamortized financial instrument liability discount of \$10.0 million and unamortized financing costs of \$5.4 million during the nine months ended September 30, 2013.

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14 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:

	Nine months ended September 30, 2014	Year ended December 31, 2013
Opening balance.....	\$ 91,424	\$ 111,197
Payments	(2,105)	(3,305)
Assumed in business combinations (note 4)	824	-
Additions.....	3,953	2,032
Change in estimated future cash flows.....	1,890	705
Effect of changes in foreign exchange rates.....	601	732
Change in discount rate	10,169	(23,317)
Unwinding of discount.....	2,154	3,380
Closing balance	<u>\$ 108,910</u>	<u>\$ 91,424</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 \$245.9 million and \$228.9 million at September 30, 2014 and December 31, 2013, respectively. In order to determine the current provision related to these future values, the estimated future values were discounted using an average risk-free rate of 2.6% and 3.1% at September 30, 2014 and December 31, 2013, respectively. The provision is expected to be settled up to 40 years into the future.

15 Other long-term liabilities

	September 30, 2014	December 31, 2013
Pension liabilities	\$ 5,541	\$ 6,086
Risk management liabilities (note 24).....	7,121	5,046
Finance lease liabilities	29	345
Other.....	509	4,010
	<u>\$ 13,200</u>	<u>\$ 15,487</u>

16 Share capital

	Number of shares	Share Capital
At January 1, 2014	122,200,192	\$ 1,585,145
Exercise of stock options.....	580,145	5,942
Exercise of other stock awards.....	412,958	-
Reclassification of contributed surplus on exercise of stock options and other stock awards	-	6,072
Issuance of common shares in connection with the dividend reinvestment and stock dividend programs.....	966,582	27,497
At September 30, 2014.....	<u>124,159,877</u>	<u>\$ 1,624,656</u>

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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, 2014.....	1,928,985	\$ 16.22	727,611	223,160	95,021
Granted.....	1,131,887	33.91	261,290	425,833	49,743
Exercised.....	(580,145)	10.24	(405,701)	(7,257)	-
Issued for cash.....	-	-	(815)	(617)	-
Forfeited.....	(22,884)	25.94	(16,466)	(20,663)	-
Balance at September 30, 2014...	2,457,843	\$ 21.92	565,919	620,456	144,764
Vested.....	833,097	\$ 15.26	134,477	-	144,764

At September 30, 2014, awards available to grant under the 2011 Equity Incentive Plan were approximately 8,627,006.

Per share amounts

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Weighted average common shares outstanding	123,883	121,622	123,313	121,133
Dilutive effect of:				
Stock options and other awards	2,304	1,766	2,049	1,691
	126,187	123,388	125,362	122,824

17 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 September 30, 2014 is \$9.0 million, whereby Hunting paid the Company and the Company paid the tax assessments relative to certain of these audits. 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.

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.

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Notes to Condensed Consolidated Financial Statements

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

18 Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Products	\$ 2,081,057	\$ 1,591,823	\$ 5,815,104	\$ 4,316,685
Services	278,950	250,071	781,960	707,946
	<u>\$ 2,360,007</u>	<u>\$ 1,841,894</u>	<u>\$ 6,597,064</u>	<u>\$ 5,024,631</u>

19 Depreciation and amortization

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Depreciation of property, plant and equipment	\$ 39,261	\$ 31,927	\$ 110,302	\$ 95,203
Amortization of intangible assets	14,249	12,533	41,285	36,852
	<u>\$ 53,510</u>	<u>\$ 44,460</u>	<u>\$ 151,587</u>	<u>\$ 132,055</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cost of sales	\$ 52,315	\$ 43,316	\$ 148,031	\$ 128,879
General and administrative.....	1,195	1,144	3,556	3,176
	<u>\$ 53,510</u>	<u>\$ 44,460</u>	<u>\$ 151,587</u>	<u>\$ 132,055</u>

20 Employee salaries and benefits

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Employee salaries and benefits	\$ 79,291	\$ 68,844	\$ 229,211	\$ 200,354

Employee salaries and benefits have been expensed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cost of sales	\$ 70,805	\$ 61,572	\$ 204,715	\$ 179,330
General and administrative.....	8,486	7,272	24,496	21,024
	<u>\$ 79,291</u>	<u>\$ 68,844</u>	<u>\$ 229,211</u>	<u>\$ 200,354</u>

Included in employee benefits is stock based compensation expense of \$3.6 million and \$10.1 million for the three and nine months ended September 30, 2014 and \$2.4 million and \$6.0 million for the three and nine months ended September 30, 2013, respectively. The stock based compensation expense is included in general and administrative expenses.

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

21 Other operating expenses (income)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Loss (gain) on sale of property, plant and equipment	\$ (373)	\$ 8	\$ (1,905)	\$ (365)
Foreign exchange loss (gain).....	(2,705)	409	(6,014)	(3,712)
	<u>\$ (3,078)</u>	<u>\$ 417</u>	<u>\$ (7,919)</u>	<u>\$ (4,077)</u>

22 Income tax provision

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Current tax provision.....	\$ 9,235	\$ 15,922	\$ 35,077	\$ 35,586
Deferred tax recovery.....	(789)	(2,497)	(7,915)	(8,012)
Income tax provision.....	<u>\$ 8,446</u>	<u>\$ 13,425</u>	<u>\$ 27,162</u>	<u>\$ 27,574</u>
Effective income tax rate.....	<u>49.7%</u>	<u>24.0%</u>	<u>25.7%</u>	<u>24.9%</u>

23 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 September 30, 2014 and December 31, 2013, the Company’s proportionate share of property, plant and equipment was \$10.4 million and \$10.5 million, respectively. The impact of the Company’s share of the other financial position and results of the Partnership is not material to the Company’s consolidated financial statements.

24 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 September 30, 2014, the carrying amount of long-term debt was \$1,166.4 million less debt discount and issue costs of \$23.3 million and the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,226.3 million. As at December 31, 2013, the carrying amount of long-term debt was \$781.8 million less debt discount and issue costs of \$24.2 million and fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$805.9 million.

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Derivative financial instruments (recurring fair value measurements)

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

	September 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Commodity swaps.....	\$ 4,026	\$ 3,431	\$ 1,095	\$ 1,914
Commodity futures.....	1,429	250	-	336
Commodity options.....	188	22	13	-
Foreign currency forward contracts.....	28,582	2,381	15,651	215
Foreign currency options.....	-	7,153	7	5,046
Total.....	<u>\$ 34,225</u>	<u>\$ 13,237</u>	<u>\$ 16,766</u>	<u>\$ 7,511</u>
Less non-current portion:				
Foreign currency forward contracts.....	28,565	-	15,646	-
Foreign currency options.....	-	7,121	-	5,046
	<u>28,565</u>	<u>7,121</u>	<u>15,646</u>	<u>5,046</u>
Current portion.....	<u>\$ 5,660</u>	<u>\$ 6,116</u>	<u>\$ 1,120</u>	<u>\$ 2,465</u>

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

(i) **Commodity financial instruments**

WTI Futures, options and swaps

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

Natural Gas Liquids ("NGL")

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

(ii) **Currency financial instruments**

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

U.S. Dollar Forwards

In June 2014, the Company received cash of \$0.7 million on the settlement of U.S. dollar forward contracts for a notional amount of U.S.\$10.0 million. As at September 30, 2014, the Company had U.S. dollar forward contracts to buy U.S. dollars at a weighted average rate of \$1.0242 for U.S.\$1.00 on a notional amount of U.S.\$250.0 million, expiring on September 15, 2017.

U.S. Dollar Options

In June 2014, the Company paid cash of \$0.2 million to settle U.S. dollar options for a notional amount of U.S.\$10.0 million. As at September 30, 2014, the Company had sold U.S. dollar options at a strike price of \$1.295 for U.S.\$1.00 on a notional amount of U.S.\$250.0 million, expiring on September 15, 2017.

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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.

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; and
- The fair value of foreign currency options and forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values.

The fair value of financial instrument contracts by fair value hierarchy at September 30, 2014 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets from financial instrument contracts				
Commodity swaps	\$ 4,026	\$ -	\$ 4,026	\$ -
Commodity futures	1,429	1,429	-	-
Commodity options.....	188	-	188	-
Foreign currency forward contracts	28,582	-	28,582	-
Total assets.....	<u>\$ 34,225</u>	<u>\$ 1,429</u>	<u>\$ 32,796</u>	<u>\$ -</u>
Liabilities from financial instrument contracts				
Commodity swaps	\$ 3,431	\$ -	\$ 3,431	\$ -
Commodity futures	250	250	-	-
Commodity options.....	22	-	22	-
Foreign currency forward contracts	2,381	-	2,381	-
Foreign currency options	7,153	-	7,153	-
Total liabilities.....	<u>\$ 13,237</u>	<u>\$ 250</u>	<u>\$ 12,987</u>	<u>\$ -</u>

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cost of sales	\$ 1,960	\$ (5,233)	\$ (885)	\$ 271
Foreign exchange loss (gain) on long-term debt (note 13).....	(10,321)	2,366	(11,426)	(20,820)
Gain on financial instruments relating to interest expense.....	-	-	-	(18,252)
	<u>\$ (8,361)</u>	<u>\$ (2,867)</u>	<u>\$ (12,311)</u>	<u>\$(38,801)</u>

Financial Risk Management

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

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

a) Foreign 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:

	September 30,	
	2014	2013
U.S. dollar forwards and options		
Favorable 5% change	\$ 5,229	\$ 3,758
Unfavorable 5% change	(5,428)	(3,758)
U.S. dollar long-term debt forwards and the related options		
Favorable 5% change	\$ 16,754	\$ 10,798
Unfavorable 5% change	(16,754)	(10,798)

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

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

b) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will be affected by changes in market interest rates. As a result of the repayment of Tranche B Term Loan on June 28, 2013, the Company settled the interest rates swap and derecognized its interest rate floor financial instrument liability discount, and accordingly, the Company no longer has exposure to changes in market interest rates as at September 30, 2014 relating to these financial instruments.

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c) Commodity price risk

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

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

	September 30,	
	2014	2013
Crude oil and NGL related prices		
Favorable 15% change	\$ 8,219	\$ 3,973
Unfavorable 15% change	(7,209)	(3,973)

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 September 30, 2014, approximately 3% 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.

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 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 \$500.0 million and at September 30, 2014, no amount was drawn against the Revolving Credit Facility and letters of credit amounting to \$39.4 million were issued and outstanding under the Revolving Credit 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 September 30, 2014 and December 31, 2013, the Company was in compliance with these covenants.

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

Set out below is maturity analyses of certain of the Company's financial contractual obligations as at September 30, 2014. 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 risk management liabilities and accrued interest.....	\$ 597,936	\$ -	\$ -	\$ 597,936
Dividend payable	37,248	-	-	37,248
Long-term debt.....	-	-	1,166,440	1,166,440
Interest payment on long-term debt.....	75,235	300,939	208,859	585,033
Commodity swaps.....	3,431	-	-	3,431
Commodity futures.....	250	-	-	250
Commodity options.....	22	-	-	22
Foreign currency options.....	32	7,121	-	7,153
Foreign currency forward.....	2,381	-	-	2,381
	<u>\$ 716,535</u>	<u>\$ 308,060</u>	<u>\$ 1,375,299</u>	<u>\$ 2,399,894</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 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.

	September 30, 2014	December 31, 2013
Total borrowings (note 13).....	\$ 1,143,126	\$ 757,566
Less: cash and cash equivalents	(125,275)	(97,182)
Net debt	1,017,851	660,384
Total share capital (note 16).....	1,624,656	1,585,145
Total capital	<u>\$ 2,642,507</u>	<u>\$ 2,245,529</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.

Gibson Energy Inc.

Notes to Condensed Consolidated Financial Statements

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25 Segmental information

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

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

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

Propane and NGL Marketing and Distribution include a retail propane distribution operation and a wholesale business that includes 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 of crude oil and marketing of a variety of products, including road asphalt, roofing flux, frac oils, light and heavy straight run distillates and tops.

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

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

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.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Three months ended September 30, 2014	Terminals & Pipelines	Environmental Services	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
Statement of operations								
Revenue - external and inter-segmental.....	\$ 41,618	\$ 131,190	\$ 139,024	\$ 303,041	\$ 184,486	\$ 1,998,940	\$ -	\$ 2,798,299
Revenue - inter-segmental	(16,299)	(27,006)	(16,865)	(39,449)	(49,341)	(289,332)	-	(438,292)
Revenue - external	25,319	104,184	122,159	263,592	135,145	1,709,608	-	2,360,007
Segment profit	31,082	28,522	20,518	13,183	14,263	12,296	-	119,864
Depreciation of property, plant and equipment	7,905	13,755	9,351	4,447	3,190	67	546	39,261
Amortization of intangible assets	521	6,264	3,219	2,237	1,246	113	649	14,249
General and administrative	-	-	-	-	-	-	8,968	8,968
Stock based compensation	-	-	-	-	-	-	3,642	3,642
Corporate foreign exchange gain	-	-	-	-	-	-	(732)	(732)
Interest expense	-	-	-	-	-	-	18,774	18,774
Interest income	-	-	-	-	-	-	(225)	(225)
Foreign exchange loss on long-term debt....	-	-	-	-	-	-	18,939	18,939
Income tax provision	-	-	-	-	-	-	8,446	8,446
Net income	\$ 22,656	\$ 8,503	\$ 7,948	\$ 6,499	\$ 9,827	\$ 12,116	\$ (59,007)	\$ 8,542

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

Three months ended September 30, 2013	Terminals & Pipelines	Environmental Services	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
Statement of operations								
Revenue - external and inter-segmental.....	\$ 34,885	\$ 90,097	\$ 138,951	\$ 267,545	\$ 200,475	\$ 1,620,535	\$ -	\$ 2,352,488
Revenue - inter-segmental	(14,697)	(8,271)	(16,216)	(47,616)	(61,229)	(362,565)	-	(510,594)
Revenue - external	20,188	81,826	122,735	219,929	139,246	1,257,970	-	1,841,894
Segment profit	25,806	24,335	22,834	13,146	12,089	18,845	-	117,055
Depreciation of property, plant and equipment	6,770	10,537	8,731	2,632	2,694	66	497	31,927
Amortization of intangible assets	519	5,682	3,135	1,601	779	170	647	12,533
General and administrative	-	-	-	-	-	-	8,880	8,880
Stock based compensation	-	-	-	-	-	-	2,365	2,365
Corporate foreign exchange gain	-	-	-	-	-	-	(334)	(334)
Interest expense	-	-	-	-	-	-	14,901	14,901
Interest income	-	-	-	-	-	-	(257)	(257)
Foreign exchange gain on long-term debt...	-	-	-	-	-	-	(8,984)	(8,984)
Income tax provision ...	-	-	-	-	-	-	13,425	\$ 13,425
Net income	\$ 18,517	\$ 8,116	\$ 10,968	\$ 8,913	\$ 8,616	\$ 18,609	\$ (31,140)	\$ 42,599

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

Nine months ended September 30, 2014	Terminals & Pipelines	Environmental Services	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
Statement of operations								
Revenue - external and inter-segmental.....	\$113,882	\$ 315,968	\$ 413,638	\$ 969,476	\$ 505,540	\$5,502,185	\$ -	\$7,820,689
Revenue - inter-segmental	(46,900)	(46,692)	(45,141)	(122,348)	(156,416)	(806,128)	-	(1,223,625)
Revenue - external	66,982	269,276	368,497	847,128	349,124	4,696,057	-	6,597,064
Segment profit	82,504	72,176	60,435	54,747	36,868	50,848	-	357,578
Depreciation of property, plant and equipment	22,059	39,751	27,464	10,203	9,003	201	1,621	110,302
Amortization of intangible assets	1,564	18,601	9,709	5,286	3,738	452	1,935	41,285
General and administrative	-	-	-	-	-	-	26,401	26,401
Stock based compensation	-	-	-	-	-	-	10,150	10,150
Corporate foreign exchange gain	-	-	-	-	-	-	(2,709)	(2,709)
Interest expense	-	-	-	-	-	-	47,767	47,767
Interest income	-	-	-	-	-	-	(274)	(274)
Foreign exchange loss on long-term debt....	-	-	-	-	-	-	18,959	18,959
Income tax provision	-	-	-	-	-	-	27,162	27,162
Net income	\$ 58,881	\$ 13,824	\$ 23,262	\$ 39,258	\$ 24,127	\$ 50,195	\$ (131,012)	\$ 78,535

Gibson Energy Inc.

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

Nine months ended September 30, 2013 Statement of operations	Terminals & Pipelines	Environmental Services	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
Revenue - external and inter-segmental.....	\$ 96,936	\$ 243,673	\$ 398,388	\$ 781,788	\$ 454,167	\$4,155,616	\$ -	\$6,130,568
Revenue - inter- segmental	(36,110)	(18,038)	(40,945)	(130,694)	(132,859)	(747,291)	-	(1,105,937)
Revenue - external	60,826	225,635	357,443	651,094	321,308	3,408,325	-	5,024,631
Segment profit	70,548	60,530	61,509	39,073	35,108	66,271	-	333,039
Depreciation of property, plant and equipment	19,644	30,409	27,210	7,734	8,584	197	1,425	95,203
Amortization of intangible assets	1,491	16,877	9,376	4,790	2,058	509	1,751	36,852
General and administrative	-	-	-	-	-	-	25,354	25,354
Stock based compensation	-	-	-	-	-	-	6,013	6,013
Corporate foreign exchange gain	-	-	-	-	-	-	(3,413)	(3,413)
Interest expense	-	-	-	-	-	-	38,709	38,709
Gain on financial instruments relating to interest expense...	-	-	-	-	-	-	(18,252)	(18,252)
Interest income	-	-	-	-	-	-	(384)	(384)
Foreign exchange loss on long-term debt....	-	-	-	-	-	-	4,082	4,082
Debt extinguishment costs	-	-	-	-	-	-	38,209	38,209
Income tax provision	-	-	-	-	-	-	27,574	27,574
Net income	\$ 49,413	\$ 13,244	\$ 24,923	\$ 26,549	\$ 24,466	\$ 65,565	\$ (121,068)	\$ 83,092

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The breakdown of additions to property, plant and equipment and intangible assets by operating segment is as follows:

	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Terminals and Pipelines	\$ 156,786	\$ 1,376	\$ 66,885	\$ 1,425
Environmental Services	61,195	1,182	43,709	772
Truck Transportation.....	26,083	2,410	38,205	1,722
Propane & NGL Marketing & Distribution	12,566	867	9,176	217
Processing & Wellsite Fluids.....	10,546	63	4,795	108
Corporate	9,043	8,504	1,449	1,833
Total	<u>\$ 276,219</u>	<u>\$ 14,402</u>	<u>\$ 164,219</u>	<u>\$ 6,077</u>

Geographic Data

Based on the location of the end user, approximately 17% and 18% of revenue was from customers in the United States for the three and nine months ended September 30, 2014, respectively, and approximately 22% and 21% for the three and nine months ended September 30, 2013, respectively.

The Company's non-current assets (excluding investment in finance lease and deferred tax asset) are primarily concentrated in Canada with 28% and 32% in the United States at September 30, 2014 and December 31, 2013.

26 Subsequent Event

On November 4, 2014, the Company declared a quarterly dividend of \$0.30 cents per common share for the three months ended December 31, 2014 on its outstanding common shares. The dividend is payable on January 16, 2015 to shareholders of record at the close of business on December 31, 2014.