



**GIBSON ENERGY INC.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED  
DECEMBER 31, 2012**

Prepared March 5, 2013

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## GLOSSARY OF TERMS AND DEFINED TERMS

In this Annual Information Form (“**AIF**”), references to “we”, “our”, “us”, “Gibson” or “the Company” mean Gibson Energy Inc., its subsidiaries, partnerships and joint venture investments unless the context otherwise requires.

In this AIF, unless otherwise indicated or the context otherwise requires, the following terms shall have the meaning set forth below. Capitalized terms represent frequently used concepts that have been specifically defined herein for ease of use in reading this AIF. Non-capitalized terms represent commonly used industry terms and measurements used throughout the document.

**ABCA:** *Alberta Business Corporations Act.*

**API:** American Petroleum Institute.

**API Gravity:** Measure of the relative density of liquid petroleum products. A higher API Gravity value is associated with a lighter petroleum liquid.

**asphalt:** Liquid asphalt cement is a dark brown to black cementitious material that is primarily produced by petroleum distillation. When crude oil is separated in distillation towers in a refinery, the heaviest hydrocarbons with the highest boiling points settle at the bottom. These tar-like fractions, called residuum, require relatively little additional processing to become products such as asphalt cement or residual fuel oil. Liquid asphalt cement is primarily used in the road construction and maintenance industry and for shingle manufacturing and roofing purposes. Residual fuel oil is primarily used as burner fuel in numerous industrial and commercial business applications. As used herein, the term refers to both liquid asphalt cement and residual fuel oils.

**barrel (bbl):** One barrel of petroleum.

**Board:** The board of directors of Gibson Energy Inc.

**boe:** Barrels of oil equivalent; a commonly used measure for equating the quantity of natural gas equivalent to a volume of crude oil; for example 6Mcf of gas per barrel of oil, or 6Mcf per barrel.

**BRT:** Battle River Terminal ULC.

**butane:** A common LPG that is colorless and flammable, C<sub>4</sub>H<sub>10</sub>. Butane has numerous commercial uses and is used industrially as a feedstock for gasoline and in petrochemical production.

**Canwest Propane / Canwest:** The Company’s branded retail propane distribution business.

**Common Shares:** Means the common shares of the Company.

**condensate:** A petroleum mixture composed primarily of pentane and heavier hydrocarbons, usually produced with or extracted from natural gas, which is liquid at normal pressure and temperature. The component of NGLs that remains after the propane and butane have generally been removed, comprised of a pentane and higher hydrocarbon composition.

**Co-op:** R/C Guitar Coöperatief U.A., a Dutch co-op owned by investment funds affiliated with Riverstone Holdings LLC, (“**Riverstone**”).

**Credit Facility:** Means the Revolving Credit Facility and the Tranche B Term Loan.

**diesel:** Combustible petroleum distillate used as a fuel for diesel engines.

**diluent:** A petroleum stock which is used to reduce the viscosity and increase the API Gravity of a heavier petroleum stock by dilution; typically condensate and sometimes butane or condensate in Canada.

**distillate:** A liquid condensed from vapor in refinery distillation, including diesel and jet fuel.

**DRIP:** Gibson's dividend re-investment plan.

**DSU:** Deferred Share Unit.

**feedstock:** A raw material required for an industrial process such as petrochemical processing or manufacturing.

**frac fluids:** A fluid, either water or hydrocarbon, used to transport proppant in a hydraulic fracture well completion.

**gasoline:** Volatile, flammable liquid mixture of hydrocarbons obtained from petroleum.

**GHG:** Greenhouse Gas.

**Gibson Clear:** The Company's branded frac fluid product produced at the Moose Jaw Refinery.

**IFRS:** International Financial Reporting Standards.

**LPG:** Liquefied petroleum gas. Typically comprised of ethane, propane and butane.

**LSB:** Light Sour Blend. Refers to a light sour crude oil price benchmark for crude delivered into Cramer, Manitoba.

**midstream:** The industry term for the components of the energy industry in between the production of oil and gas (upstream) and the refining and distribution of refined and finished products (downstream).

**MP Energy:** MP Energy Partnership; renamed Gibson Gas Liquids ULC in 2012.

**NGLs:** Natural gas liquids, comprised of ethane, propane, butane and natural gasoline.

**Offering:** The initial public offering ("IPO") or the first sale of Common Shares by Gibson to the public which closed on June 15, 2011.

**OMNI:** Parent holding company of OMNI Energy Services Corp.

**Palko:** Palko Environmental Ltd.

**pentane:** Highly flammable hydrocarbon, C<sub>5</sub>H<sub>12</sub>. Commonly used as fuel, diluent and as a solvent. Also a major component of condensate.

**propane:** A common LPG, C<sub>3</sub>H<sub>8</sub>, that is colorless and flammable as a gas. Used industrially in the petrochemical industry and commercially as a heating or engine fuel.

**PSU:** Performance Share Unit.

**Revolving Credit Facility:** A revolving credit facility of up to U.S. \$375.0 million amended and restated as of May 24, 2012.

**roofing flux:** Processed asphaltic product used in manufacture of shingles and other roofing products.

**RSU:** Restricted Share Unit.

**SCADA:** Supervisory control and data acquisition. Gibson's SCADA is operated out of a central control room staffed with operators 24 hours per day, 7 days per week. Gibson's SCADA system allows the control room operators to control the various equipment at each of the facilities including opening/closing valves, turning pumps on and off as well as, for example, selecting the speed of certain pumps, directing product to or from the appropriate tank and adjusting blending ratios.

**SDP:** Stock dividend plan.

**Shareholders:** The holders of issued and outstanding Common Shares from time to time.

**sour/sweet:** Describes the degree of a given crude oil's sulfur content. Sour refers to high-sulfur, greater than 0.5% by weight, and sweet refers to low sulfur.

**Taylor:** Taylor Companies LLC, renamed Gibson Energy LLC in 2012, and substantially all of the assets of Taylor Propane Gas Inc.

**terminalling:** The receipt of crude oil and liquid asphalt cement for storage into storage tanks and other appurtenant equipment, including pipelines, where the crude oil will be commingled with other products of similar quality; the storage of crude oil; and the delivery of the crude oil as directed by a distributor into a truck, vessel or pipeline.

**throughput:** The volume of product transported or passing through a pipeline, plant, terminal or other facility over a stated period of time.

**tops:** A bottomless light sour crude oil, a residual from the asphalt refining process, which is a premium feedstock for refiners.

**Tranche B Term Loan:** A senior secured first lien term loan facility in an aggregate original principal amount of U.S. \$650.0 million, with an original term of seven years, expiring on June 15, 2018.

**TSX:** Toronto Stock Exchange.

**USEPA:** U.S. Energy Independence and Security Act of 2007.

**wellsite fluids:** Includes oil based drilling and frac fluids used in the drilling and completion of oil and natural gas wells.

**WCSB:** Western Canadian Sedimentary Basin.

**WTI:** Also known as West Texas Intermediate, a type of crude oil used as a benchmark in crude oil pricing.

## FORWARD-LOOKING STATEMENTS

Certain statements and information included or referred to in this AIF constitute forward-looking statements and forward-looking information. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking statements. Forward-looking statements and forward-looking information, included or referred to in this AIF include, but are not limited to statements with respect to:

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

With respect to forward-looking statements and forward-looking information included or referred to in this AIF, assumptions have been made regarding, among other things:

- future growth in world-wide demand for crude oil and petroleum products;
- crude oil prices supporting increased production and services in North America, including the Canadian oil sands and off-shore of North America, including the Gulf of Mexico;
- no material defaults by the counterparties to agreements with the Company;
- the Company's ability to obtain qualified personnel, owner-operators, lease operators and equipment in a timely and cost-efficient manner;
- the regulatory framework governing taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business;

- operating costs;
- future capital expenditures to be made by the Company;
- the Company's ability to obtain financing for its capital programs on acceptable terms;
- the Company's future debt levels and ratings on the Company's debt; and
- the impact of increasing competition on the Company.

The forward-looking statements and forward-looking information included or referred to in this AIF involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. See "Risk Factors". No assurance can be given that these expectations will prove to be correct. As such, forward-looking statements and forward-looking information included or referred to in this AIF and the Company's other filings with Canadian and United States securities regulators should not be unduly relied upon. These statements speak only as of the date of this AIF.

**The forward-looking statements and forward-looking information included or referred to in this AIF are expressly qualified by this cautionary statement and are made as of the date of this AIF. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.**

## **CORPORATE STRUCTURE**

### **Incorporation and Organization**

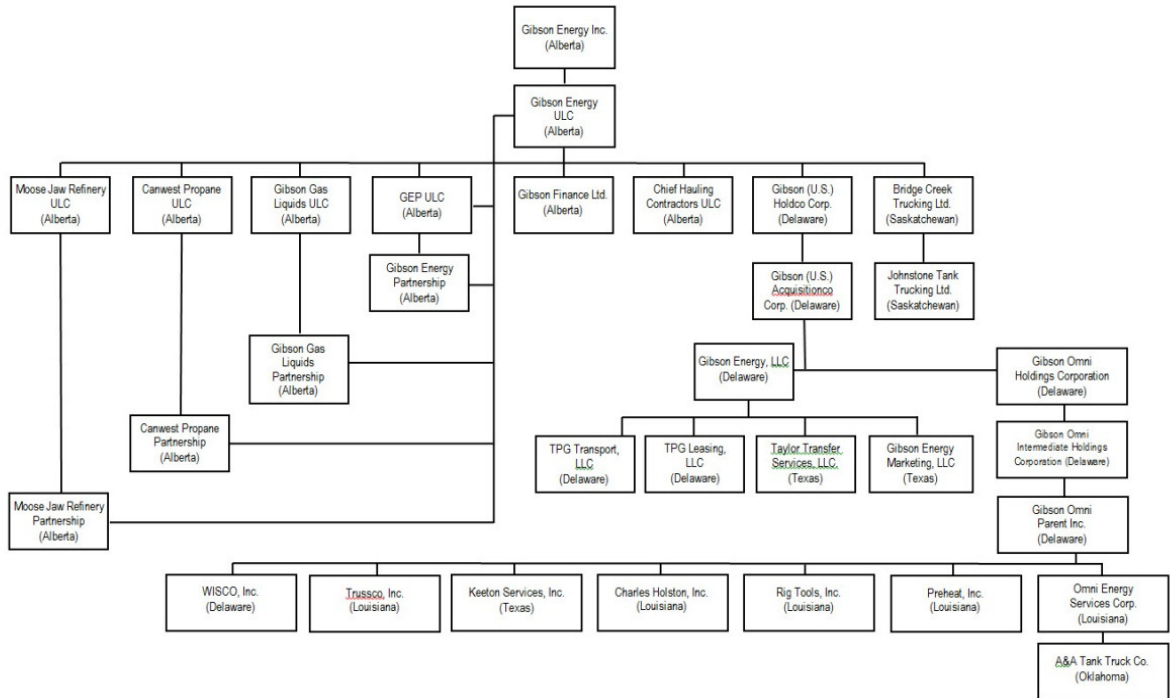
The Company was incorporated as "Gibson Energy Inc." pursuant to the ABCA on April 21, 2011. On June 15, 2011, concurrent with the consummation of its IPO, Gibson Energy Inc., Gibson Energy Holding ULC and 1441682 Alberta Ltd. amalgamated into one entity, with the surviving entity being Gibson Energy Inc. (the "Reorganization"). The Reorganization was a common control transaction whereby Gibson Energy Inc. was accounted for using continuity of interest and, as such, Gibson Energy Inc. is considered a continuity of Gibson Energy Holding ULC.

The Company's head office and registered office is located at 1700, 440-2nd Avenue, S.W., Calgary, Alberta, Canada T2P 5E9.



## Corporate Structure

The following organizational chart illustrates the intercorporate relationship of the Company with the other material entities in which the Company has an interest. All entities listed are wholly owned, directly or indirectly, by the Company. Jurisdiction of incorporation or organization, as applicable, are indicated in parentheses.



## HISTORY OF THE BUSINESS

The origins of Gibson date back to 1950 with the incorporation of Gibson Petroleum Marketing Co. Ltd., which started marketing petroleum products in 1953. In 1954, Gibson entered the pipeline business with the creation of Gibson Crude Oil Purchasing Co. Ltd. and the construction of a pipeline gathering system in Alberta. In 1957, Gibson built its first oil terminal facility in Hardisty, Alberta, connected into the Interprovincial Pipeline moving oil from western Canada to the east. In 1955, Gibson began its oil trucking operations and subsequently expanded these operations throughout western Canada through organic growth and various acquisitions. In 1982, Gibson entered the fractionation business with the construction of its 5,800 barrels per day capacity Hardisty fractionation facility to process NGLs into their component products, ethane, propane, butane and condensate. In 1988, Gibson entered the propane business with the purchase of James Propane, followed by the purchase of Canwest Propane in 1990, and expanded its propane operations throughout Alberta, Saskatchewan and British Columbia. Through its purchase of Link Petroleum in 1998 and the purchase of MP Energy in 2007, Gibson entered into the wholesale propane distribution and marketing business, which has subsequently expanded to include propane terminals and storage facilities in Ontario, British Columbia, Washington and Montana. In 2002, Gibson entered the refining business with the purchase of a refinery in Moose Jaw, Saskatchewan, which is strategically connected to pipelines and significant product storage capacity. Gibson subsequently expanded the refinery to year-round operations and, through different process applications and expansions, the refinery now manufactures paving and roofing flux asphalt as well as wellsite fluids used by the petroleum industry.

On December 12, 2008, Gibson Acquisition ULC, an indirect wholly owned subsidiary of Co-op acquired all of the issued and outstanding shares of Gibson Energy Holdings Inc. from Hunting PLC, a UK-based energy services company publicly listed on the London Stock Exchange. From Gibson's inception to the Riverstone acquisition, the Company had been controlled by Hunting PLC. Following the acquisition by Riverstone, Gibson Energy Holdings Inc., a wholly owned subsidiary of Gibson Energy Holding ULC, through a series of amalgamations, was amalgamated with Gibson Acquisition ULC to form Gibson Energy ULC. On June 15, 2011, concurrent with the consummation of the Offering, Gibson Energy Inc., Gibson Energy Holding ULC and 1441682 Alberta Ltd. amalgamated into one entity, with the surviving entity being Gibson Energy Inc. Over the course of 2011 and 2012, Riverstone liquidated its ownership of Gibson and no longer owns any Common Shares at December 31, 2012.

In the year ended December 31, 2010, the Company completed two large acquisitions, being Taylor, an independent for-hire crude oil transportation, logistics and crude oil and NGL marketing business with operations and facilities, including pipeline injection stations, in most crude oil producing states in the U.S. and the remaining 75% equity interest, which the Company did not already own in BRT, which was comprised of four 300,000 barrel tanks and related infrastructure that is now part of Gibson's Hardisty Terminal. These acquisitions expanded Gibson's geographic reach as they resulted in Gibson expanding its service offerings in key hydrocarbon producing regions throughout the U.S. and significantly expanded the terminal operations at the Company's Hardisty Terminal.

In the year ended December 31, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Palko not already owned by the Company. This acquisition, together with the Company's joint venture investment in the Plato partnership in Saskatchewan and development of the Company's Rimbey custom terminal, expanded the Company's Canadian custom terminal operations to include emulsion treating, water disposal and oilfield waste management.

On October 31, 2012, the Company completed the largest acquisition in its history, being OMNI, an environmental and production services company that services the oil and gas industry in the U.S. This acquisition, together with the Company's Canadian custom treating and terminal operations, has expanded the Company's environmental services and fluid handling business, including water treatment, into the U.S. market. On October 29, 2012, Gibson completed a bought deal offering of 18,216,000 subscription receipts at a price of \$22.10 per subscription receipt for gross proceeds of approximately \$402.6 million and the purchase price for the OMNI acquisition was partially financed by the net proceeds from the offering. A business acquisition report on Form 51-102F4 was filed on November 5, 2012, in respect of the OMNI acquisition and can be accessed via SEDAR at [www.sedar.com](http://www.sedar.com).

## DESCRIPTION OF THE BUSINESS

### Overview

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

Gibson has provided market access to leading oil and gas industry participants in western Canada for the last 59 years. The Company has grown its business by diversifying its service offerings to meet customers' needs and has expanded geographically to provide its service offerings to key hydrocarbon producing regions throughout the U.S. Most recently, Gibson further expanded its services to include emulsion treating, water disposal and oilfield waste management in both Canada and the U.S.

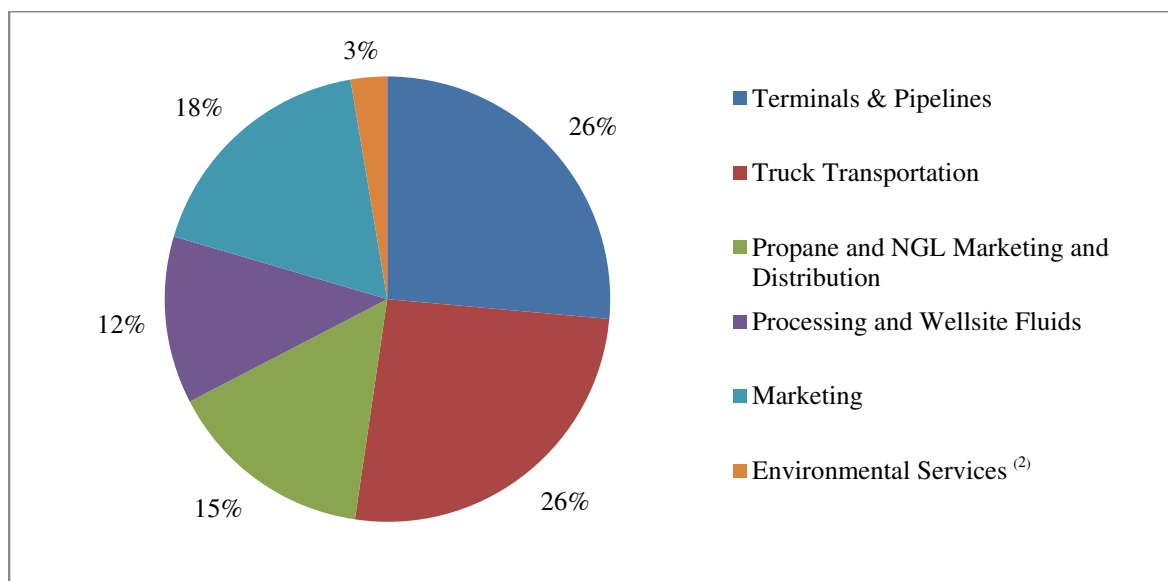
Gibson's six integrated segments are as follows:

- *Terminals and Pipelines:* Gibson provides fee-based storage and terminalling services and tariff-based pipeline services for crude oil, condensate and refined products and also provides fee-based emulsion treating, water disposal and oilfield waste management. In 2012, the Company transported an average of over 581,000 barrels per day through its integrated logistics assets. This segment includes the owned and operated Hardisty Terminal and Edmonton Terminal, both of which are located at principal hubs for aggregating and exporting oil and refined products out of the WCSB. The segment also includes approximately 495 kilometres of pipeline and sixteen custom terminals, as well as 78 pipeline injection stations located in the U.S.;
- *Truck Transportation:* Gibson offers hauling services for crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum, emulsion, waste water and drilling fluids to many of North America's leading oil and gas producers in western Canada and the U.S. In 2012, Gibson transported over 152 million boe throughout Canada and the U.S. The Company owns approximately 2,400 trailers and has access to approximately 1,300 tractors through a combination of Company-owned tractors and contractual arrangements with over 625 owner-operators and lease operators in Canada and the U.S.;
- *Propane and NGL Marketing and Distribution:* Gibson is the second largest retail propane distribution company in Canada via the Company's branded Canwest Propane business. In 2012, Canwest sold over 328 million litres of propane to oil and gas, industrial and residential customers. Gibson is one of Canada's leading wholesale propane distributors with five propane storage terminals, selling over 663 million litres in 2012. Gibson's NGL marketing business sold approximately 6.3 million barrels of NGL's in 2012. Gibson also operates a fractionation plant located at the Hardisty Terminal that processes NGLs into its component products such as condensate, butane, propane, ethane and solvents;
- *Processing and Wellsite Fluids:* Gibson manufactures and markets a variety of high quality products, including several grades of road asphalt, roofing flux, wellsite fluids and tops. The business segment's primary asset is a heavy crude oil processing facility located in Moose Jaw, Saskatchewan.
- *Marketing:* Gibson provides marketing services by leveraging its extensive asset network of terminals, pipelines and trucks. This enhances the overall profitability of the Company's other segments, in particular Terminals and Pipelines and Truck Transportation. Further, this network allows the Company to increase overall profitability by capitalizing on specific location, quality, or time-based arbitrage opportunities to earn incremental margins. The Company purchases, sells, stores and blends crude oil and condensate, selling approximately 223,000 physical barrels per day in 2012; and

- Environmental Services:* Through its recent acquisition of OMNI, Gibson provides environmental services to the oil and gas industry in the U.S. OMNI has operations in most major oil and liquids focused areas in the U.S., including the Bakken, Granite Wash, Eagle Ford, Tuscaloosa Marine, Mississippi Lime and the Gulf of Mexico, with a significant focus on environmental services, production related business, and oil and liquids based activity. OMNI has two primary business lines, comprised of Environmental Services and Fluid Handling and Production Services, and two complementary business lines comprised of Exploration Support Services and Accommodations.

Gibson's six segments are integrated, but sufficiently diversified such that no segment (excluding Environmental Services) accounts for less than 10% or more than one third of total company profitability in the year ended December 31, 2012.

**Segment Profit Breakdown 2012<sup>(1)</sup>**



<sup>(1)</sup> Segment profit is defined as revenue minus (i) cost of sales; and (ii) operating costs. It excludes depreciation, amortization, accretion, impairment charges, stock based compensation and corporate expenses.

<sup>(2)</sup> Includes results from date of acquisition of OMNI (October 31, 2012).

The following table shows the Company's revenues from each segment for the years ended December 31, 2012 and 2011.

<b>Revenues (Thousands)</b>	<b>2012</b>	<b>2011</b>
Terminals and Pipelines .....	\$ 146,734 <sup>(1)</sup>	\$ 888,803
Truck Transportation .....	524,007	458,127
Propane and NGL Marketing and Distribution...	856,686	1,028,534
Processing and Wellsite Fluids.....	551,737	501,191
Marketing.....	3,745,283	3,774,135
Environmental Services.....	<u>37,889</u>	<u>0</u>
Total Revenues .....	<u>5,862,336</u>	<u>6,650,790</u>
Revenues – inter-segmental.....	(949,307)	(1,578,759)
Total Revenues – external.....	<u>\$ 4,913,029</u>	<u>\$ 5,072,031</u>

<sup>(1)</sup> As a result of a change in the Marketing segment fee arrangement, whereby at the beginning of 2012, the Marketing segment contracted volumes on a fixed fee basis as opposed to purchasing product from the custom terminal facilities, revenue for the Terminals and Pipelines segment declined in fiscal 2012 compared to fiscal 2011. The new fee arrangement did not impact the comparability of segment profits.

## **Vision and Business Strategy**

### ***Vision***

Gibson's vision is to be a growth oriented, solutions-based, North American midstream energy service company with a balanced portfolio of businesses. Gibson strives to be acknowledged for: leading health, safety, security and environmental performance; providing an integrated service offering; being highly responsive and adaptable to a continuously changing business environment; being a valued business partner who provides innovative solutions that create long-term profitability; having the best customer-focused engaged workforce in the industry in which it participates; being an outstanding investment for its Shareholders; and being a socially responsible organization valued by the communities in which it does business.

### ***Business Strategy***

As Gibson moves energy products through its facilities utilizing the Company's terminals, pipelines, tank storage and truck transportation fleet in concert with the Company's marketing, processing, treating, environmental service and blending capabilities, Gibson looks to create value through its synergistic service offerings. The Company's primary objective is to generate stable and growing cash flows for its shareholders, which it plans to accomplish by executing on its key business strategies:

- Leverage the Company's integrated asset base to capture interdivisional synergies within the hydrocarbon value chain;
- Partner with high quality customers, including major oil companies, to provide the Company with long term stable revenue;
- Expand and leverage the Company's network of assets;
- Pursue strategic acquisition opportunities consistent with past practices;
- Maintain discipline when investing in new equipment, technology, facilities and personnel;
- Maintain sound risk management policies; and
- Continue to focus on pro-active health, safety, security and environment programs.

## **Integrated Business Model**

Gibson offers customers a fully integrated platform through the Company's six segments, providing valuable services across the full spectrum of midstream activities. An oil and gas production company could be serviced by Gibson in a variety of ways, providing the Company with several opportunities to provide value to the customer, while at the same time "touching" the barrel multiple times, earning revenue at each "touch". The following illustrates the possible life cycle of a barrel of crude oil:

- Gibson's Marketing segment purchases crude oil at the wellhead and transports the product through the Truck Transportation segment, potentially to a Gibson terminal;
- the Company's Terminals and Pipelines segment can then earn a terminalling fee and pipeline tariff from the product delivered;
- the product can then be moved downstream to North American refineries or potentially to Gibson's Moose Jaw facility to be processed into road asphalt, roofing flux, tops, and/or wellsite fluids, providing revenue for the Processing and Wellsite Fluids segment;
- Gibson's Truck Transportation segment can then transport the wellsite fluids on a road paved with Gibson road asphalt to the original customer that produced the crude oil to assist in bringing the customer's next well to production; and
- The Company's Environmental Services segment can collect, transport, treat and dispose of the water and waste streams associated with crude oil production.

In addition to the services noted above, propane is a common source of energy used to operate the pumpjack and other equipment at the wellsite, such as tank heating. Gibson's retail propane operation, Canwest Propane, sold approximately 59% of its propane to oil and gas customers in the year ended December 31, 2012.

By employing an integrated model Gibson touches a barrel of product multiple times, creating value and driving profit to the bottom line with each touch.

By operating a network of terminals and injection stations, the Company is able to provide exclusive delivery points for its Truck Transportation operations as certain Gibson terminals and injection stations will only accept crude oil trucked in by a Gibson-operated truck. This provides a competitive advantage to the Company's Truck Transportation operations and also ensures that the necessary safety, security and environmental policies are controlled by Gibson. In addition, the terminals provide Gibson's marketing operations with priority access to the Gibson owned and operated terminal infrastructure thereby enabling the Marketing segment to capitalize on quality or time-based arbitrage opportunities.

The Truck Transportation segment's unique integration with the other segments of the Company positions it to optimize the Company's overall assets to increase profitability and cash flows. In particular, the Truck Transportation assets allow Gibson's Marketing operations to take advantage of arbitrage opportunities where the Marketing group utilizes Gibson trucks when making spot purchases from the wellhead and then delivers these purchases to the Company's terminals, which in turn results in additional throughput fees in Gibson's Terminals and Pipelines operations. For the year ended December 31, 2012, approximately 8% of Truck Transportation revenue was from fees charged to other operations within the Company.

The newly created Environmental Services segment's synergistic fit with existing segments, such as Truck Transportation and Marketing, provides a platform for growth focused on environmental services and fluid handling. Significant opportunities exist to leverage OMNI's strong U.S. customer relationships to promote the Company's current services platform to existing OMNI customers and vice versa.

The Propane and NGL Marketing and Distribution segment's integration with other segments provides opportunities to increase overall profitability and cash flow. The Company's wholesale NGL marketing group is a supplier of condensate and other NGL products to the Company's Marketing segment, enabling the latter to capture quality arbitrage opportunities. In 2012, approximately 92% of the NGL Marketing and Distribution segment's truck transportation needs were performed by the Company's Truck Transportation segment.

By synchronizing with the Company's other segments, particularly Truck Transportation and Marketing, the Processing and Wellsite Fluids segment enjoys the benefits of having ready access to both heavy crude oil supply and a solid downstream customer base. In 2012, approximately 89% of the Company's wellsite fluid truck transportation requirements and approximately 83% of the Company's road asphalt truck transportation needs were met by the Company's Truck Transportation segment.

The Company's recent entry into the provision of truck to rail transloading services for crude oil and NGL's at its Edmonton and Sexsmith terminals in Canada and at client locations in the U.S. provides integration opportunities between the Company's Marketing, Propane and NGL Marketing and Distribution, Truck Transportation and Terminals and Pipelines segments. This integration creates potential to increase the Company's overall profitability and cash flow.

## **Gibson's Operations**

### **Terminals and Pipelines**

#### ***Business Overview***

The Company's Terminals and Pipelines segment includes the Hardisty and Edmonton Terminals, approximately 495 kilometres of pipeline, sixteen Canadian custom terminals, providing various services including dry oil terminal services, emulsion treating, water disposal and oilfield waste management, in Alberta and Saskatchewan, and 78 pipeline injection stations located in key hydrocarbon producing regions throughout the U.S. The storage and terminalling facilities, which provide fee based services, have an aggregate storage capacity of approximately 4.2 million barrels and throughput averaging approximately 426,000 barrels per day in 2012. The pipeline facilities, which provide tariff-based services, have a capacity of over 94,000 barrels per day. The Company's custom treating and terminals business provide emulsion treating, water disposal, and oilfield waste management. Services are provided on a fee for service basis.

The Hardisty Terminal receives product from the Gibson-owned Bellshill and Provost pipelines, and has receipt and delivery connections to most major pipelines in the area. The Edmonton Terminal has receipt and delivery connections to major pipelines in the area, including pipeline receipts from Suncor's Edmonton and Fort McMurray refineries. Gibson operates the Hardisty Terminal as a third party shipper facility and has the flexibility to receive from and ship to most of the major pipelines that intersect at Hardisty. Since Gibson is able to provide customers this flexibility and is indifferent about which pipeline the crude is delivered to, Gibson has a competitive advantage over some of the other terminals in the Hardisty area. In addition to pipeline receipts, crude oil and condensate are trucked into all terminals. By having large and strategic, undeveloped, centrally-located land holdings in the Edmonton and Hardisty areas, the Company is uniquely positioned to participate in the expected infrastructure build-out necessary to support oil and gas industry growth in the WCSB. Tariffs at the terminals depend upon product density, volume, demand for terminalling, terms of the contract and available tankage. Fees earned at the injection stations are primarily based upon throughput.

The segment profit generated at the Company's terminals depends upon the level of throughput, fees related to condensate blending, and the ability to recover the cost of dedicated tankage and earn a return on that tankage. The segment profit generated by the Company's tariff and other fee-related activities is dependent on the volumes transported through the Company's pipelines and the level of the tariff and other fees charged as well as the fixed and variable field costs of operating the pipelines.

Tariffs and other fees on the Company's pipeline systems are not regulated and vary by receipt point and delivery point based on competitive market rates. The Terminals and Pipelines business relies on both long-term and short-term contracts. Long-term contracts are typically fixed fee arrangements where customers pay throughput fees regardless of the volumes delivered, or pay fees associated with dedicated tank usage or both. In addition to the fixed fee components, the Company can earn additional usage fees above certain volume thresholds. For the year ended December 31, 2012, approximately 90% of the segment's revenue was from fee based revenue, of which 43% was long-term fixed fee revenue.

The following table contains information regarding the Company's Terminals and Pipelines operations:

<u>Asset</u>	<u>Key Attributes</u>
Hardisty Terminal	<ul style="list-style-type: none"> <li>• Approximately 3.7 million barrels of storage with approximately 364,000 barrels per day of average throughput in 2012</li> <li>• Approximately 2.9 million barrels of storage are for dedicated third party customer use under long-term arrangements that provide for fixed monthly fees, plus additional usage fees based on throughput</li> <li>• Truck loading and offloading, crude blending and cooling, storage and receipt and delivery services into Keystone, Enbridge, Express and IPF Southbound pipelines</li> <li>• Approximately 166 acres of undeveloped land available for future expansion opportunities. 18 acres currently under development for the Hardisty expansion, on its eastern lands.</li> </ul>
Edmonton Terminal	<ul style="list-style-type: none"> <li>• Approximately 0.5 million barrels of storage connected to the major export pipelines operated by Enbridge and Kinder Morgan, approximately 62,000 barrels per day of average throughput in 2012</li> <li>• Handles diesel fuel, LPGs, wellsite fluids and crude oil</li> <li>• Serviced by Canadian Pacific and Canadian National rail systems, seven existing pipeline connections, truck loading and offloading</li> <li>• Approximately 45 acres of undeveloped land available for future expansion opportunities</li> </ul>
Custom Treating and Terminals	<ul style="list-style-type: none"> <li>• Sixteen terminals throughout Alberta and Saskatchewan</li> <li>• Thirteen terminals provide emulsion treating, water disposal and oilfield waste management services</li> <li>• Other terminals typically blend smaller batches of crude grades which are transported to the terminals by truck transportation and injected into pipeline systems</li> </ul>
Provost Pipeline	<ul style="list-style-type: none"> <li>• Approximately 292 kilometres of pipe extending east from the Hardisty Terminal, with 50,000 barrels per day capacity</li> </ul>
Bellshill Lake Pipeline	<ul style="list-style-type: none"> <li>• Approximately 102 kilometres of pipe extending west from the Hardisty Terminal with 30,000 barrels per day capacity</li> </ul>
Injection Stations	<ul style="list-style-type: none"> <li>• 78 injection stations throughout the U.S., primarily in North Dakota, Texas, Oklahoma, Wyoming, Louisiana, Montana and New Mexico</li> </ul>

The Hardisty Terminal, Edmonton Terminal, Hardisty fractionation plant and the Bellshill and Provost Pipeline facilities are all controlled by Gibson's SCADA system, which is operated out of a central control room staffed with operators 24 hours per day, 7 days per week. The SCADA system allows the control room operators to control the various equipment at each of the facilities including opening/closing valves, turning pumps on and off as well as, for example, selecting the speed of certain pumps, directing product to or from the appropriate tank and adjusting blending ratios. The SCADA system also acquires data from all aspects of each facility's operation and the data is stored for future reference and/or used immediately for the safe and efficient operation of the facilities. Some examples of this data are pressures, temperatures, volumes, flow rates and tank levels. This information enables the SCADA system to, among other things, perform volume balance calculations to quickly detect pipeline volume imbalances and alert the operators to take action. Overall, the SCADA system allows for timely and efficient operation as well as assists the Company in performing various regulatory compliance functions.



## ***Customers***

The Company provides fee-based storage, emulsion treating, water disposal, oilfield waste management and terminal services and tariff-based pipeline services to independent and integrated oil companies and petroleum marketing companies. End users for the Company's products in the Terminals and Pipelines segment are primarily refiners with product reaching the end markets via major export pipelines to which the Company is connected. In the year ended December 31, 2012, three primary customers together accounted for approximately 27% of revenue from the Company's Terminals and Pipelines segment. The largest customer accounted for 12% of segment revenue and the second and third largest customers accounted for 9% and 6% of segment revenue, respectively. Approximately 70% of the segment revenues earned by Gibson for these three investment grade customers is subject to long-term contracts.

## ***Competition***

Certain major pipeline companies have existing storage facilities connected to their systems that compete with certain of the Company's storage facilities. Competition among terminals is based on location, connectivity of assets and the range of services provided. Competition among pipelines is based primarily on transportation charges, availability of service to producing areas and access to specific crude oil blend streams by the owners of the crude oil. The Company believes that the maturity of producing oilfields, capital requirements, environmental considerations and the difficulty in acquiring rights-of-way and related permits, make it unlikely that competing pipeline systems comparable in size and scope to the Company's pipeline systems will be built in the foreseeable future. Trucking services may also compete for crude oil volumes and this competition places a ceiling on the transportation charges a pipeline can levy.

## **Truck Transportation**

### ***Business Overview***

The Company's Truck Transportation segment is one of the largest truck haulers of crude, condensate, propane, butane, asphalt, methanol, sulfur, petroleum coke, gypsum and drilling fluids in North America, transporting over 152 million boe throughout Canada and the U.S. in 2012. On a daily basis, a significant percentage of the crude oil produced requires transport by truck. As a result, trucking is considered to be a critical component for the movement of crude oil in North America. Gibson, through its 57 years of trucking experience, has developed a reputation for reliable, safe and on-time service delivery enabling the Company to maintain long-term customer relationships with many oil and gas companies. These relationships allow Gibson to grow alongside these companies as demand for crude oil hauling services increases as overall production grows. In addition, the Company's large, flexible fleet makes Gibson a "first-call" supplier when pipeline disruptions occur. These hauls, referred to as spot movements since they are not long-term hauls, can attract premium pricing. In addition to hauling, the Company also generates revenues from the sale of chemicals to the natural gas processing industry.

The Company owns approximately 2,400 trailers and has access to approximately 1,300 tractors through a combination of Company-owned tractors and contractual arrangements with over 625 owner-operators and lease operators in Canada and the U.S. Gibson's contracts with the Canadian tractor owner-operators stipulate that fuel and maintenance costs related to the tractors are covered by the owner-operators. Gibson's contracts with lease operators in the U.S. stipulate that lease operators cover all maintenance and repair costs for both the tractor and trailer units, which are owned by the Company, as well as all fuel for the truck. Under the Canadian and U.S. agreements the owner-operators and lease operators, as applicable, are entitled to a percentage of the revenues generated by the hauling services they provide. In addition, the Company provides administration services, such as accounting and insurance. The costs of these administration services are borne by the owner-operators or the lease operators, as applicable.

The Company's large scale and comprehensive fleet allows Gibson to carry out logistically complex, high margin jobs, regardless of the volume or destination. The Company consistently provides timely and safe delivery of energy products to customers through the Company's base locations situated throughout western Canada and the U.S.

The Truck Transportation segment conducts its business using a combination of long-term contracts, master service agreements, tenders that range between one and two year periods and short-term evergreen contracts with a cancellation notice period, typically 30 days. Gibson has a long-term agreement with Shell Trading (US) Company (“Shell”) providing Gibson with the opportunity to act as Shell’s transportation provider within agreed areas in the U.S. and requiring the Company to operate certain of its injection stations exclusively for Shell. Transportation rates vary based on receipt point, delivery point, length of haul and product hauled. Also, hauls can be regularly scheduled under service agreements or hauled as spot movements.

Of the revenue generated by the Truck Transportation segment in the year ended December 31, 2012, long-term contracts, and tender related agreements accounted for 25% and 22% of the segment’s revenue, respectively.

### ***Customers***

The Company’s customers in the Truck Transportation segment include oil and gas exploration and production companies, refiners, oilfield drilling contractors, road construction companies and LPG and refined product marketing companies. The Company’s Truck Transportation segment three largest external customers, each investment grade, together accounted for approximately 32% of segment revenue in the year ended December 31, 2012, with the largest customer accounting for 20%.

### ***Competition***

The Company faces competition which varies by both product and geography with no one company having the same service offering across the geographic areas the Company services. Price competition increases in periods of lower activity across all products and all geographies, and the inverse is true when activity levels peak. Any changes in the level of price competition have a potential impact on net hauling margin which ultimately impacts overall segment profit.

## **Propane and NGL Marketing and Distribution**

### ***Business Overview***

The Company’s Propane and NGL Marketing and Distribution segment includes a retail and wholesale propane business and an NGL marketing business. The Company’s branded Canwest Propane business distributes propane to retail customers throughout western Canada. In the year ended December 31, 2012, Canwest Propane’s retail operations distributed in excess of 328 million litres to residential and commercial/industrial customers. Over 81% of these volumes were derived from oil and gas related and commercial/industrial volumes, both of which are relatively insulated from weather risk. Canwest Propane leases the vast majority of its tanks to its customers, providing the Company with a steady source of cash flow and income and creating a consistent, dependable customer base. In addition, Canwest Propane also provides a variety of equipment rentals that are complementary to sales of propane. Other income includes parts and equipment sales, service labour and rental and delivery charges which are part of the ancillary services performed through the Company’s Canwest Propane branch offices.

Over the last 21 years, the Company has established its presence in the market as the second largest retail propane distributor in Canada. This size enables Canwest Propane to compete for large, geographically diverse accounts that smaller competitors are not able to service. The Company has established a reputation as a dependable, customer service-oriented propane supplier, consistently honouring its service and supply commitments to its customers and maintaining industry-leading health, safety and environmental standards, as evidenced by the Company’s long-standing relationships with leading industry participants. In addition, by operating a wholesale and a retail business, the Company has the purchasing power that creates the potential to enter into large supply contracts at attractive prices. As a result, Canwest Propane is able to offer competitive pricing to its customers. Canwest Propane also offers its customer’s flexible arrangements such as pre-pay plans based on average estimated annual usage and fixed price plans that smaller competitors do not offer.

Over the last few years, Gibson has grown its presence in the North American wholesale propane distribution market and currently owns five propane storage facilities in Ontario, British Columbia, Washington and Montana with combined storage capacity of approximately 3.7 million litres. The Company's wholesale propane distribution business sold over 663 million litres of propane in 2012.

The Company provides NGL marketing services to its customers in Canada and the U.S. The Company earns a margin through the purchase and subsequent sale of NGL products such as butane and condensate. The Company looks to take advantage of specific location, quality or time-based arbitrage opportunities when they are available. The Company markets and transports NGL products throughout North America via truck, rail and pipelines. Included in the Company's NGL marketing business is a 5,800 bpd fractionation plant at the Company's Hardisty Terminal that processes NGL mix and splits it into its components of condensate, butane, propane, ethane and solvents.

Propane sales are categorized according to final usage of the propane at the point of sale. Pricing in both the retail and wholesale markets is heavily dependent on the market pricing of propane, which forms a basis for the cost of sales known as the "rack price." Rack price is the price at which the product is offered for sale at the production plant, typically a natural gas processing plant or a refinery. Rack price is dependent on product supply and demand, weather, location, as well as transportation and storage costs. The retail business is exposed to minimal inventory price risk as the business only carries operational propane inventory levels. Wholesale propane and NGL marketing sales are usually in much larger volumes and generally have lower per litre or barrel margins than retail propane. Wholesale propane and NGL marketing are also impacted more by spot market pricing and arbitrage opportunities. Where possible, longer-term contracts with market indexed prices are entered into with larger customers.

### ***Customers***

Canwest Propane distributes propane to a diverse retail customer base which includes over 34,000 customers across western Canada. In the year ended December 31, 2012, Canwest Propane's revenue by sector was oil and gas (51%), commercial/industrial (25%), automotive (6%), residential (9%), cylinder (8%) and wholesale (1%). In the year ended December 31, 2012, Canwest Propane's top five external customers accounted for approximately 20% of total retail revenue with no one customer accounting for more than 8%. Typical contract terms are from one to five years with automatic renewal provisions.

The Company provides wholesale propane distribution to customers in Canada and the U.S. The top five external customers accounted for approximately 63% of total wholesale propane distribution revenue for the year ended December 31, 2012.

The Company's customer base for its NGL marketing business is diversified and includes refining customers, independent retailers and other end users. The top five external customers accounted for approximately 46% of total NGL marketing revenue for the year ended December 31, 2012, and other Gibson segments accounted for approximately 27% of NGL marketing revenue.

### ***Competition***

In the retail propane marketplace, Gibson faces competition from large, mid-sized and small players throughout western Canada. Approximately 50 retailers compete for market share across western Canada. The industry is, for the most part, mature with geographic pockets that have higher growth potential (such as oil sands and high drilling activity areas). The Company's market share and growth potential are based on its ability to provide timely, reliable service at competitive prices to its customers.

Competition is often the greatest in markets, such as central Alberta, where supply points are readily available. Smaller retailers are more prevalent in these markets because they are not required to invest capital in storage facilities as they can load directly from the supply source. Price competition also exists among retailers in areas with large oil and gas accounts where significant volumes can be achieved.

Propane also competes with other energy sources, including natural gas, electricity, wood, fuel oil and diesel, many of which are more cost effective on an equivalent energy basis. Propane has advantages over these other fuels in remote locations, in particular, where natural gas or electricity is not economically viable.

Competition in the wholesale propane distribution market and NGL marketing business is also strong; however, there are significant barriers to entry such as high capital requirements. The Company has focused on geographic areas that do not have major NGL pipeline infrastructure. Margins there tend to be higher, whereas intense competition occurs in areas where NGL pipelines exist, such as the northeastern U.S. and the mid continental U.S. These assets allow numerous players to share similar economics which, in turn, can significantly erode margins. The wholesale business is focused around long-term strategic supply contracts with key players which remove the competition from the picture for the most part. A large part of the Company's business also revolves around strategic terminal assets in areas where competitors who do not have such assets are at a disadvantage.

## **Processing and Wellsite Fluids**

### ***Business Overview***

Gibson's Processing and Wellsite Fluids segment utilizes the Company's facility, located in Moose Jaw, Saskatchewan, to process heavy crude oil into asphaltic and lighter distillate products to be sold into niche markets. Products include several grades of road asphalt, roofing flux, wellsite fluids and tops. Gibson's refined products are shipped by truck, rail and pipeline from Saskatchewan to high demand markets in the U.S. and western Canada. Currently, the refinery processes heavy crude oil received from two independent pipelines and is both interconnected and strategically positioned in close proximity with the critical Enbridge and South Saskatchewan pipelines located between the Canadian oil producing markets and the Canadian and U.S. product consuming markets. By processing heavy crude oil, the Company gains a competitive advantage as some of its competitor's process higher-cost light sweet crude and condensate. Since its acquisition by Gibson in 2002, the Moose Jaw facility has been upgraded and expanded with further storage facilities and increased rail loading facilities. During our 2012 maintenance turnaround, certain process improvements were implemented that could increase capacity by up to 10% with limited capital spending. In 2012, the facility processed an average of approximately 15,400 barrels per day of heavy crude oil into an average of approximately 6,300 barrels per day of asphaltic products and approximately 9,100 barrels per day of wellsite fluids and tops. The facility has approximately 1 million barrels of storage capacity, approximately 52 kilometres of pipelines, truck and rail loading facilities and approximately 660 leased rail cars.

With respect to production from the bottom forty percent of the heavy crude barrel, Gibson differentiates itself from other refineries by producing roofing flux and road asphalt products that are of very high and consistent quality. Most refineries regard asphalt as a by-product of their gasoline production and do not focus on its quality or consistency. Consistency, especially for roofing flux, is very important to Gibson's asphalt shingle manufacturing customers. In 2011, Gibson introduced a straight run roofing flux into the market. The advantage of this product is that it can be used directly in the shingle production process without additional blending, saving the shingle manufacturers time and money, and allowing Gibson to increase its margin on roofing flux sales.

The market demand for road asphalt is dependent on competitive pricing, the weather being amenable to paving and the approval of government spending for road construction and repair. Typically, larger road asphalt sales are completed through a market based tender process, often with the Government of Saskatchewan. The tendering process usually occurs in the spring for paving contracts to be performed in the upcoming summer and fall paving season. The contracts are typically fixed price agreements. Tendered volumes are based on the individual paving projects but delivered volumes are dependent on the ability to complete the paving projects during the season. The market demand for roofing flux asphalt is dependent on product quality, competitive pricing and the market demand for roofing shingle products, particularly in the U.S. Roofing flux sales contracts are typically based on variable pricing that is set month-to-month based on crude prices, market demand and other market related factors.

From the top sixty percent of a barrel of feedstock, Gibson produces approximately one third of the volume as lighter distillates, which are sold as wellsite fluid products, and two thirds of the volume as tops. Gibson has developed niche markets for its wellsite fluid products such as Distillate 822 and Gibson Clear fracturing fluid. It is these products that typically provide the highest margin to Gibson. Wellsite fluids sales are on a job-by-job basis, with prices based on market prices at the time of sale. The tops product sold by the refinery is typically sold in pipeline batches to the Company's Marketing segment for further resale to refineries based on a crude oil based price using the LSB crude stream as a marker.

The wellsite fluids sales market is dependent on overall well drilling activity in the Company's market areas, the availability of competing products and the specific end use of the product. Crude oil costs for all products depends on availability of feedstock and the landed price for the specific grade of crude oil being processed.

The Company also has a mud mixing plant, located in Sexsmith, Alberta, where the Company utilizes its wellsite fluid products in the provision of custom mud blending services, as well as a frac fluid reprocessing service business, located in Edson, Alberta, whereby the Company recycles used frac fluids and turns the used fluids to a new reusable product.

### ***Customers***

The Company's customers in the Processing and Wellsite Fluids segment include road construction companies, governments, roofing shingle manufacturers, oilfield drilling contractors, refiners and oil and gas exploration and production companies. Road asphalt is shipped primarily to customers located in Saskatchewan, the U.S. Northeast, Alberta, Massachusetts, Wisconsin and Iowa and roofing flux is shipped primarily to the U.S. Midwest, U.S. West Coast and U.S. Mid-Atlantic areas. The Company's Processing and Wellsite Fluids segment top five external customers accounted for approximately 36% of segment revenue in the year ended December 31, 2012, with four customers, to whom the Company sells roofing asphalt, comprising 31% of segment revenue.

### ***Competition***

Many of the Company's competitors in the Processing and Wellsite Fluids segment are fully integrated national or multinational oil companies engaged in various segments of the petroleum business. However, most of the Company's competitors typically produce asphalt as a by-product of their gasoline production and do not focus on quality and consistency.

### **Marketing**

#### ***Business Overview***

Gibson's Marketing segment provides valuable marketing services to the Company's customers and also focuses on increasing volumes through the Terminals and Pipelines and Truck Transportation segments. The Marketing segment also takes advantage of specific location, quality or time-based arbitrage opportunities, when they are available. Location-based arbitrages arise when value differentials between crude oil prices at two locations are greater than the transportation cost between the two locations. In these circumstances, the Company can use its own transportation assets, or its access to rail transportation, to physically move the product and capture the value differential. Quality-based arbitrage opportunities are dependent on the prevailing price differentials between various grades of crude oil and diluent that can be combined to create a specific crude oil grade. When the combined cost of the components is less than the value of the specific grade created, a positive margin can be earned. At its various terminals, Gibson has access to many different crude oil types which enables Gibson to capture quality arbitrage opportunities when they exist. Time-based arbitrage opportunities arise when the forward price curve, typically WTI, is in contango, meaning that forward month prices are greater than the current month's prices. In this market situation, physical crude oil can be stored using Gibson's access to storage and sold forward using financial contracts at prices that are higher than the current physical value of the crude oil. The Marketing segment purchases, sells, stores and blends crude oil and condensate, selling an average of approximately 223,000 physical barrels per day in 2012, and is responsible for helping to manage the Company's physical commodity positions, based on the needs of each segment.

Gibson operates an extensive transportation network that provides a bridge from the wellhead to the refinery gate and allows the Company to give increased assurance to producers that their production will not get shut-in due to logistical issues between the wellhead and injection into a main line pipeline system. The extent of the asset network allows Gibson to source more barrels for its Marketing segment. Because Gibson is not a production company, it is seen by producers as a business partner, not as a competitor, and has, therefore, developed strong relationships over decades of being in the business of aggregating and marketing physical crude oil.

### ***Customers***

The Company's Marketing segment buys and sells crude oil, condensate and natural gas. The largest component of its revenues is the sale of crude oil. In the crude oil business, the Company's customer base is diversified and includes major integrated oil companies, producers, refineries and an electronic trading platform. The Company's Marketing segment top five external customers, each investment grade, accounted for approximately 25% of segment revenue in the year ended December 31, 2012, and other Gibson segments accounted for approximately 14% of segment revenue.

### ***Competition***

The Company's competitors in the Marketing segment include other crude oil pipeline companies, the major integrated oil companies, their marketing affiliates and independent gatherers, investment banks that have established a trading platform, brokers and marketers of widely varying sizes, financial resources and experience.

## **Environmental Services**

### ***Business Overview***

Gibson provides environmental services to the oil and gas industry in the U.S. through the OMNI group of companies acquired on October 31, 2012. Gibson's Environmental Services segment has a strong competitive position in most major oil and liquids focused areas in the U.S., including the Bakken, Granite Wash, Eagle Ford, Tuscaloosa Marine, Mississippi Lime and the Gulf of Mexico, with a significant focus on environmental services, production related business and oil and liquids based activity. These core business lines are focused on increasingly complex and non-discretionary compliance, maintenance and safety needs of exploration and production companies. The operating strategy of this segment is characterized by: (i) developing new value-added environmental services; (ii) bundling select services into turn-key logistics packages; (iii) focusing on increasing the business mix towards the more stable production related work; and (iv) consistently improving logistics, reducing costs and mitigating the risks associated with environmental non-performance. Through the OMNI acquisition, the Environmental Services segment added approximately 1,200 employees across 43 sales offices and logistics hubs which are located in close proximity to major high growth basins and shale plays and provide convenient access to customer operations. In addition to its sales offices and logistics hubs, the Environmental Services segment maintains ten saltwater disposal wells.

The Environmental Services segment has two primary business lines, comprised of Environmental Services and Fluid Handling and Production Services, and two complementary business lines comprised of Exploration Support Services and Accommodations.

- ***Environmental Services and Fluid Handling***

Gibson provides a broad range of environmental services and fluid handling packages to meet the needs of oil and gas related activities both onshore in key oil and liquids rich basins and offshore in the Gulf of Mexico. Gibson's environmental services portfolio includes:

- Transportation, disposal and processing of drilling and production waste such as fluids and cuttings; and
- Comprehensive fluid service packages, including drilling support packages (from supply, transport and handling equipment to removal), as well as cleaning packages (supply, training and support of custom fluid vacuum units).

Environmental services are typically non-deferrable with a mandated frequency of service and carry with them significant regulatory barriers and permitting costs. As a result, the Company generates significant repeat business with its largest customers. Importantly, Gibson offers these services both individually and as a complete turn-key package that increases uptime and reduces complexity for its customers.

The Environmental Services and Fluid Handling business line has historically developed innovative and proprietary products for its customers, thereby increasing the demand for its services. Increasing regulatory scrutiny and customers' heightened awareness regarding the environmental impact of their businesses have driven increased demand for environmental services and fluid handling. Transportation, treating and disposing of fluid and solid waste (flowback and produced water, as well as drill cuttings and slop oil) have become preeminent issues for oil and gas companies. Consequently, customers are focused on mitigating the potential reputational and financial risks associated with these activities and have, increasingly, turned to operators like Gibson who can provide turn-key solutions to solve these issues.

- ***Production Services***

Gibson's Production Services business line provides exploration and production companies with critical services that facilitate uptime and consistent operation of producing wells. Specialized services range from the inspection and repair of above-ground well-pumping units to the pressure and temperature testing of producing wells. The Company maintains a strong position in the Bakken area and has the flexibility to migrate services to other basins. The production services Gibson provides are natural extensions of its environmental fluid transport and disposal well service lines, which target both drilling and production related activities.

- ***Exploration Support Services***

Gibson provides a range of exploration support services, including exploratory drilling services that are offered individually or as a bundle and outsourced project management packages. The Company undertakes the drilling of holes and insertion of explosive charges in the seismic mapping processes. In addition, the exploration support services business unit provides Gibson with a window into expected drilling and production activity.

- ***Accommodations***

Gibson's accommodations business principally provides winterized, mobile housing units and services for oilfield personnel at the drill or production site. The Company currently provides this service only in the Bakken, which requires a greater level of maintenance and services than traditional wellsite housing due to the harsh operating and weather conditions in the region.

### ***Customers***

The Company's customers in the Environmental Services segment include many major exploration and production companies and geophysical companies within the Exploration Support Services business line. The Company's Environmental Services segment five largest external customers together accounted for approximately 25% of revenue in the year ended December 31, 2012, with the largest customer accounting for 6%.

### ***Competition***

Gibson has established a leadership position in environmental and wellsite maintenance services in most major oil and liquids focused areas in the U.S. The non-discretionary nature of compliance and greater service intensity requirements provide certainty of demand for its services.

## EMPLOYEES

As of December 31, 2012, the Company had approximately 2,540 employees. Of the total employees, 1,350 are employed in the U.S. with the remainder, 1,190 employees, employed in Canada. As of December 31, 2012, 39 employees were union employees and were party to the collective agreement between Moose Jaw Refinery Partnership and the Communication, Energy and Paperworks Union of Canada, Local 595, which expired on January 31, 2013. The current collective agreement will remain in effect until a new collective agreement is executed in mid-June, 2013. In addition, 41 employees are party to the Gibson Energy Partnership and Gibson Employees' Association collective agreement, which expires on December 31, 2013. The Company has a good working relationship with both the union and the association and has never experienced any labour-related work stoppages. The following table shows a breakdown of the Company's employees by segment:

<u>Segment</u>	<u>Employees as of December 31, 2011</u>	<u>Employees as of December 31, 2012</u>
Terminals and Pipelines .....	198	241
Truck Transportation .....	417	444
Propane and NGL Marketing and Distribution.....	265	317
Processing and Wellsite Fluids.....	79	79
Marketing .....	19	18
Environmental Services .....	-	1,195
Segment total .....	<b>978</b>	<b>2,294</b>
Finance and Administrative.....	183	219
Executive .....	22	27
Total .....	<b>1,183</b>	<b>2,540</b>

## SOCIAL AND ENVIRONMENTAL POLICIES

Gibson's Code of Conduct and Ethics Policy (the "Code") outlines the employee qualities and cultural elements that the Company values, including innovation, integrity, teamwork, excellence, respect, accountability, compassion and transparency, and embodies the values to guide personnel in identifying and managing business situations, assisting Gibson to conduct business in a responsible and ethical manner, and treating those with whom it deals with fairness and respect. The Code specifically addresses the Company's expectations for employees regarding compliance with laws, conflict of interest, confidentiality and disclosure, employment practices, health, safety and environment, use of company property and resources, retention of documents and records and reporting financial transactions. The Code also provides information on how employees can report non-compliance and how such reports will be managed. A copy of the Code has been filed in the Company's SEDAR profile at <http://www.sedar.com>.

## DESCRIPTION OF SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series (the "Preferred Shares"). As at December 31, 2012, there were 120,123,530 Common Shares issued and outstanding and no Preferred Shares were issued and outstanding.

### Common Shares

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

### Preferred Shares



The Preferred Shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. The Preferred Shares shall rank senior to the Common Shares with respect to the payment of dividends or distribution of assets or return of capital of the Company in the event of a dissolution, liquidation or winding up of the Company. There are no Preferred Shares issued and outstanding.

## DIVIDENDS

The Company is currently paying quarterly dividends to Shareholders. Gibson's intention is to provide Shareholders with growing and predictable quarterly dividends, while retaining a portion of cash flow to fund ongoing growth projects. The payment of dividends is not guaranteed, and the amount and timing of any dividends payable by Gibson will be at the discretion of the Board and will be established on the basis of Gibson's earnings, financial requirements for the Company's operations, the satisfaction of solvency tests and the compliance with its credit agreements for the declaration and payment of dividends and the satisfaction of regulatory capital requirements. See "Risk Factors".

The Company has a DRIP in place that provides eligible Shareholders with the opportunity to reinvest their cash dividends, on each dividend payment date, in additional Common Shares to be issued from treasury of Gibson.

### Dividend History

The following table sets forth the dividend history of the Company:

<b>Payment Date</b>	<b>Per Common Share Cash Dividend</b>
October 21, 2011 (June 15 – September 30).....	\$0.28
January 17, 2012.....	\$0.24
April 17, 2012.....	\$0.25
July 17, 2012 .....	\$0.25
October 17, 2012 .....	\$0.25
January 17, 2013.....	\$0.26

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares trade on the TSX under the ticker symbol GEI. The following table sets forth the monthly high and low sales prices per Common Share at the close of market and trading volumes for the Common Shares on the TSX for the periods indicated.

<b>Calendar Period</b>	<b>Monthly High (\$)</b>	<b>Monthly Low (\$)</b>	<b>Volume</b>
<b>2012</b>			
January.....	19.79	19.25	5,167,329
February.....	21.33	19.70	6,007,057
March .....	21.30	20.46	15,794,577
April.....	22.64	20.79	6,986,425
May.....	22.40	20.89	4,777,305
June.....	21.26	20.36	5,231,716
July.....	21.53	20.14	3,489,150
August.....	22.45	20.90	3,362,637
September.....	23.11	21.24	5,822,885
October.....	23.43	22.63	6,192,086
November.....	23.02	21.82	5,301,422
December.....	24.10	22.75	6,539,945

## Prior Sales

On October 27, 2012 the Company issued 18,216,000 subscription receipts at a price of \$22.10 per subscription receipt. The subscription receipts were issued to partially finance the OMNI acquisition and were exchanged for Common Shares upon completion of the OMNI acquisition.

## CREDIT RATING

The following information relating to the Company's credit ratings is provided as it relates to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short term and long-term financing and the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost effective basis depends, in part, upon the Company's credit ratings. A reduction in the current rating on the Company's debt by its rating agencies, particularly a downgrade below current ratings, will impact the Company's interest expense under its current Revolving Credit Facility borrowing agreement. In addition, negative changes in credit ratings may affect the Company's ability to, and the associated costs of: (i) entering into ordinary course derivative or hedging transactions and may require the Company to post additional collateral under certain of its contracts; and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms and could adversely affect the Company's cost of financing and its access to sources of liquidity and capital.

The following table outlines the credit ratings received by the Company:

	Standard & Poor's Ratings Services ("S&P")	Moody's Investors Service ("Moody's")
Issuer Corporate Credit Rating	BB- (Positive)	Ba3 (Stable)
Long-Term, Debt Credit Rating (Revolving Credit Facility and Tranche B Term Loan)	BB- (Recovery Rating of 3)	Ba3

S&P's issuer corporate credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality. The ratings may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within a particular rating category. An issuer credit rating of BB by S&P is fifth highest of ten categories and indicates that the obligor is less vulnerable in the near-term than other lower-rated obligors; however, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments. The "positive" rating outlook indicates the Company is expected to continue its positive cash flow momentum with a position for a ratings upgrade in the next 12 months.

S&P's long-term debt credit ratings are on a rating scale that ranges from AAA to D, which represents the highest to lowest quality of such securities rated. The ratings may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within a particular rating category. A long-term credit rating of BB is within the fifth highest of ten categories and is considered to have significant speculative characteristics.

Moody's issuer credit rating is an opinion of the ability of the issuer to honor senior unsecured financial obligations and contracts. Moody's issuer credit rating is a forward-looking opinion about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. Long-term credit ratings are intended to provide an independent measure of the credit quality of long-term debt.

Moody's credit ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. A rating of "B" by Moody's is the sixth highest of nine categories and is assigned to debt securities which are considered speculative and are subject to high credit risk. The addition of a 1, 2 or 3 modifier after a rating indicates the relative standing within a particular rating category. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of that generic rating category. The "stable" rating outlook means that the rating is likely to remain unchanged over the medium term.

The credit ratings assigned by the rating agencies are not recommendations to purchase hold or sell the debt or other securities of the issuer nor do the ratings comment on market price or suitability for a particular investor. A rating may not remain in effect for any given period of time and may be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Gibson has made payments in the ordinary course to the applicable rating agencies in connection with the assignment of ratings on the securities of the Company. In addition, the Company has made customary payments in respect of certain other services provided to the Company by the applicable rating agencies during the last two years.

## **RISK FACTORS**

The following information is a summary of certain risk factors relating to the Company or an investment in securities of Gibson. The risks have been categorized as risks relating to the Company's business and risks related to the financial and other risks. If any of the following risks or other risks occur, the trading price of the Common Shares could decline and investors could lose all or part of their investment in the Common Shares. There can be no assurance that risk management steps taken by the Company will avoid future loss due to the occurrence of any of the risk factors described below or other unforeseen risks.

### **Risks Relating to the Company's Business**

#### ***Demand for Crude Oil and Petroleum Products***

Any sustained decrease in demand for crude oil and petroleum products in the markets the Company serves could result in a significant reduction in the volume of products and services that the Company provides, including what the Company stores at its terminals, transports in its pipelines, processes at its facilities and custom terminals and transports through its trucking business, and thereby significantly reduce the Company's cash flow and revenues. Factors that could lead to a decrease in market demand include:

- lower demand by consumers for refined products, including asphalt and wellsite fluids, as a result of recession or other adverse economic conditions or due to high prices caused by an increase in the market price of crude oil, which is subject to wide fluctuations in response to changes in global and regional supply over which the Company has no control;
- an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles, technological advances by manufacturers, governmental or regulatory actions or otherwise;
- provincial, state and federal legislation either already in place or under development requiring the inclusion of ethanol and use of biodiesel which may negatively affect the overall demand for crude oil products;
- lower demand by the oil and gas drilling industry for products such as drilling mud additives and for wellsite fluids as a result of legislation regulating hydraulic fracturing currently being considered by the U.S. Congress, a number of U.S. states and the Province of Quebec;
- technological advances in the production and longevity of fuel cells and solar, electric and battery-powered engines; and
- fluctuations in demand for crude oil, such as those caused by refinery downtime or shutdowns, could also significantly reduce market demand and, therefore, reduce the Company's revenues.

The Company cannot predict, and it does not have control over, the impact of future economic and political conditions on the energy and petrochemical industries, which, in turn, could affect the demand for crude oil and petroleum products. As a result of decreased demand, the Company may experience a decrease in its margins and profitability.

### ***Commodity Price Risks***

The Company purchases from producers and other customers a substantial amount of crude oil and condensate, propane, NGLs and natural gas for resale to third parties, including other marketers and end-users. However, the Company may not be successful in balancing its purchases and sales. A producer or supplier could fail to deliver contracted volumes or deliver in excess of contracted volumes, or a purchaser could purchase less than contracted volumes. Any of these actions could cause the Company's purchases and sales to be unbalanced. While the Company attempts to balance its purchases and sales, if the Company's purchases and sales are unbalanced, the Company will face increased exposure to commodity price risks and could have increased volatility in its operating income and cash flows.

### ***Major Customers and Collection Risk***

There can be no assurance that the Company's current customers will continue their relationships with the Company or that the Company has adequately assessed their creditworthiness or that there will not be an unanticipated deterioration in their creditworthiness. The loss of one or more major customers or any material nonpayment or nonperformance by such customer, or any significant decrease in transportation services or any of the Company's other services provided to a customer, prices paid, or any other changes to the terms of service with customers, could have a material adverse effect on the Company's profitability.

### ***Market and Commodity Price Risk***

The Company enters into contracts to purchase and sell crude oil, NGLs and natural gas. Most of these contracts are priced at floating market prices. These activities expose the Company to market risks resulting from movements in commodity prices between the time volumes are purchased and the time they are sold, from fluctuations in the margins between purchase prices and sales prices and, in some cases, may also expose the Company to currency exchange risk. The prices of the products that the Company markets are subject to fluctuations as a result of such factors as seasonal demand changes, changes in crude oil and natural gas markets, and other factors. In many circumstances, purchase and sale contracts are not perfectly matched, as they are entered into at different times and for different values. Furthermore, the Company normally has a long position in most of the propane, NGL products and crude oil that the Company markets, and may store propane and NGLs in order to meet seasonal demand and take advantage of seasonal pricing differentials, thereby resulting in inventory risk.

Because crude oil margins are earned by capturing spreads between different qualities of crude oil, the Company's crude oil midstream business is subject to volatility in price differentials between crude oil streams and blending agents. In periods where such price differentials are wide, the Company's opportunity to profit by capturing spreads is enhanced, and in periods where such price differentials are tighter, the Company's opportunity to profit is reduced. As a result, margins, and profitability can vary significantly from period to period and volatility in the markets for these products may cause volatility in the Company's financial results from period to period.

To some extent, the Company can lessen certain elements of risk exposure through the integration of the Company's marketing business with its facilities businesses. In spite of this integration, the Company remains exposed to market and commodity price risk. The Company manages this commodity risk in a number of ways, including the use of financial contracts and by offsetting some physical and financial contracts in terms of volumes, timing of performance and delivery obligations.

For example, in the context of NGL marketing, because NGL product prices are related to the price of crude oil, crude oil financial contracts are one of the more common price risk management strategies that the Company uses. Also, in the context of crude oil marketing, the Company manages its exposure using WTI based futures, options and swaps. These strategies are subject to basis risk between the prices of crude oil streams, WTI and NGL product values and, therefore, cannot be expected to fully offset future price movements. Furthermore, there is no guarantee that these strategies and other efforts to manage the marketing and inventory risks will generate profits or mitigate all the market and inventory risk associated with these activities. If the Company utilizes price risk management strategies, the Company may forego the benefits that may otherwise be experienced if commodity prices were to increase. In addition, any non-compliance with the Company's trading policies could result in significantly adverse financial effects. To the extent that the Company engages in these kinds of activities, the Company is also subject to credit risks associated with counterparties with whom the Company has contracts.

### ***Competition***

The Company is subject to competition from other terminals pipelines, trucking, environmental, water treating, waste management, refining, marketing and retail propane operations that operate in the same markets as the Company's assets. The Company also faces competition from other means of transporting, storing and distributing crude oil and petroleum products, including from other pipeline systems, terminal operators and integrated refining and marketing companies that own their own terminal facilities and that may be able to supply the Company's customers with the same or comparable services on a more competitive basis. The Company's customers demand delivery of products on tight time schedules and in a number of geographic markets. If the Company's quality of service declines, or the Company cannot meet the demands of its customers, they may utilize the services of the Company's competitors.

The Company's competitors include major integrated oil and gas companies and numerous other independent oil and gas companies, individual producers and operators and other terminal, waste and water treating facilities, pipeline operators and retail propane companies. The petroleum industry also competes with other industries in supplying energy, fuel and related products to customers. Some of these competitors are substantially larger than the Company, have greater financial resources, and control substantially greater storage capacity than the Company does.

Competitive forces may result in shortages of development opportunities for infrastructure to produce and transport production. It may also result in an oversupply of crude oil, natural gas, petroleum products and chemicals. Each of these factors could have a negative impact on costs and prices and, therefore, the Company's financial results. If the Company is unable to compete with services offered by other midstream enterprises, the Company's cash flow and revenues may be adversely affected.

### ***Project Delivery***

The Company has a number of organic growth projects that require the expenditure of significant amounts of capital. Many of these projects involve numerous regulatory, environmental, commercial, weather-related, political and legal uncertainties that will be beyond the Company's control. As these projects are undertaken, required approvals may not be obtained, may be delayed or may be obtained with conditions that materially alter the expected return associated with the underlying projects. Moreover, the Company will incur financing costs during the planning and construction phases of its growth projects. However, the operating cash flows the Company expects these projects to generate will not materialize until after the projects are completed. These projects may be completed behind schedule or in excess of budgeted cost. For example, the Company must compete with other companies for the materials and construction services required to complete these projects, and competition for these materials or services could result in significant delays and/or cost overruns. Any such cost overruns or unanticipated delays in the completion or commercial development of these projects could reduce the Company's liquidity. The Company may construct facilities or other assets in anticipation of market demand that dissipates or market growth that never materializes. As a result of these uncertainties, the anticipated benefits associated with the Company's capital projects may not be achieved.

### ***Dependence on Key Personnel***

The Company's success depends, to a significant extent, on the continued services of the Company's core senior management team and other key personnel. If one or more of these individuals were unable or unwilling to continue in their present positions, the Company's business could be disrupted and the Company might not be able to find replacements on a timely basis or with the same level of skill and experience. Finding and hiring any such replacements could be costly and might require the Company to grant significant equity awards or other incentive compensation, which could adversely impact the Company's financial results. The Company does not maintain key-person life insurance for any of the Company's management personnel or other key employees. Furthermore, the ability to execute the Company's business plan and expand the Company's services will be dependent upon the Company's ability to attract and retain qualified employees, which is constrained in times of strong industry activity. For example, the failure to attract and retain a sufficient number of qualified drivers, owner-operators and lease operators for the Company's truck transportation business could also have a material adverse effect on the Company's profitability.

## ***Reputation***

Reputational risk is the potential for negative impacts that could result from the deterioration of Gibson's reputation with key customers. The potential for harming the Company's corporate reputation exists in every business decision and all risks can have an impact on reputation, which in turn can negatively impact the Company's business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity and regulatory and legal risks must all be managed effectively to safeguard the Company's reputation. Negative impacts from a compromised reputation could include revenue loss and reduction in customer base.

## ***Seasonality and Adverse Weather Conditions***

Certain of the Company's segments are impacted by seasonality. Generally, the Company's results are impacted in the second quarter due to road bans and other restrictions which impact overall activity levels in the WCSB and in certain regions of the U.S., and therefore negatively impact the Company's operations including trucking, environmental and production service, custom treating and terminals and wellsite fluids business. Certain oil and gas producing areas are only accessible in the winter months because the ground surrounding the drilling sites in these areas consists of swampy terrain. Harsh weather conditions are particularly challenging and can impede the movement of goods and increase the operating costs for the materials that can be transported, which can have a material adverse effect on profitability.

The Company's Processing and Wellsite Fluids segment is impacted by seasonality because the asphalt industry in Canada is affected by the impact that weather conditions have on road construction schedules. Refineries produce liquid asphalt year round, but asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. Demand for wellsite fluids is dependent on overall well drilling activity, with drilling activity normally the busiest in the winter months. As a result, the Company's Processing and Wellsite Fluids segment's sales of road asphalt peak in the summer and sales of wellsite fluids peak in the winter.

The Company's Propane and NGL Marketing and Distribution segment is characterized by a high degree of seasonality with much of the seasonality driven by the impact of weather on the need for heating and the amount of propane required to produce power for oil and gas related applications. Therefore, volumes are low during the summer months relative to the winter months. Operating profits are also considerably lower during the summer months. A warm winter could therefore lead to reduced demand for propane which would negatively impact the cash flows of the Company's Propane and NGL Marketing and Distribution segment and could reduce the Company's revenues.

In addition, certain of the Company's Environmental Services segment facilities are located in regions of the U.S. that are susceptible to damage from hurricanes and other weather events, and have historically been impacted by hurricanes or other adverse weather events. Future hurricanes or similar natural disasters that impact its facilities may negatively affect the Company's financial position and operating results. These negative effects may include reduced operations, costs associated with resuming operations, reduced demand for services from customers that were similarly affected by these events, lost market share, late deliveries, additional costs to purchase materials and supplies and supplies from outside suppliers, uninsured property losses, inadequate business interruption insurance and an inability to retain necessary staff.

## ***Acquisition and Integration Risk***

The Company has historically expanded its businesses through acquisitions and may seek to expand these or its other businesses through acquisitions. The Company's ability to grow is, at least in part, dependent upon the Company's ability to complete acquisitions, to integrate those acquisitions into the Company's operations, and upon the success of the Company's marketing efforts to acquire new customers. The Company intends to consider and evaluate opportunities for acquisitions; however, there can be no assurance that the Company will find attractive acquisition candidates in the future, or that the Company will be able to acquire such candidates on economically acceptable terms. Acquisitions may require substantial capital and negotiations of potential acquisitions and the integration of acquired business operations could disrupt the Company's business by diverting management away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically diverse organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. At times, acquisition candidates may have liabilities or adverse operating issues that the

Company fails to discover through due diligence prior to the acquisition. If the Company consummates any future acquisitions, the Company's capitalization and results of operations may change significantly.

Acquisitions or investments may require the Company to expend significant amounts of cash, resulting in the Company's inability to use these funds for other business purposes. The potential impairment or complete write-off of goodwill and other intangible assets related to any such acquisition may reduce the Company's overall earnings, which in turn could negatively affect the Company's capitalization and results of operations.

To effectively integrate the acquisitions into its current operations, the Company must establish appropriate operational, administrative, finance, management systems and controls and marketing functions relating to the acquisitions. These efforts, together with the ongoing integration following the acquisition will require substantial attention from the Company's management. This diversion of management attention, as well as any other difficulties which the Company may encounter in completing the acquisitions and integration process, could have an adverse effect on the Company's business, financial condition, results of operations and cash flows. There can be no assurance that the Company will be successful in integrating the acquired operations or that the expected benefits of the acquisitions will be realized.

### ***Dependence on Certain Key Suppliers***

The Company's ability to compete and expand will be dependent on having access, at a reasonable cost, to equipment, parts and components which are at least technologically equivalent to those utilized by the Company's competitors, and to the development and acquisition of new and competitive technologies. Although the Company has individual distribution agreements with various key suppliers, there can be no assurance that those sources of equipment, parts or components or relationships with key suppliers will be maintained. If these sources are not maintained, the Company's ability to compete may be impaired. The Company is able to access certain distributors and secure discounts on parts and components that would not be available if it were not for the Company's relationship with certain key suppliers. Should the relationships with these key suppliers cease, the availability and cost of securing certain equipment and parts may be adversely affected.

### ***Production of Crude Oil***

Certain of the Company's businesses are impacted by crude oil production activity including terminal and pipelines, trucking and environmental services. Crude oil production may decline for a number of reasons, including natural declines due to depleting wells, a material decrease in the price of crude oil, or the inability of producers to obtain necessary drilling or other permits from applicable governmental authorities. If the Company is unable to replace volumes lost due to a temporary or permanent material decrease in production or a decrease in demand from the oil fields served by the Company, the Company's revenue and cash flow could decline. In addition, certain of the Company's field and pipeline operating costs and expenses are fixed and do not vary with the volumes the Company gathers and transports. These costs and expenses may not decrease ratably or at all should the Company experience a reduction in the Company's volumes gathered or transported by the Company's operations. As a result, the Company may experience declines in its margins and profitability if the Company's volumes decrease.

### ***Hazards and Operational Risks***

The Company's operations are subject to the many hazards inherent in the transportation, storage, processing, treating and distribution of crude oil, natural gas and petroleum products, including:

- explosions, fires and accidents, including road and highway accidents involving the Company's tanker trucks;
- damage to the Company's tanker trucks, pipelines, storage tanks, terminals and related equipment;
- ruptures, leaks or releases of crude oil or petroleum products into the environment; and
- acts of terrorism or vandalism.

If any of these events were to occur, the Company could suffer substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of the Company's related operations. Mechanical malfunctions, faulty measurement or other errors may also result in significant costs or lost revenues.

### ***Dependence on Third Parties***

The Company's terminal and pipeline systems are dependent upon their interconnections with other terminals and pipelines owned and operated by third parties to reach end markets and as a significant source of supply for the Company's facilities. Outages at these terminals or reduced or interrupted throughput on these pipelines because of weather-related or other natural causes, testing, line repair, damage, reduced operating pressures or other causes could result in the Company being unable to deliver products to its customers from the Company's terminals or receive products for storage at its terminals or for processing at its refinery in Moose Jaw, or reduce shipments on its pipelines and could adversely affect the Company's cash flows and revenues.

### ***Decommissioning, Abandonment and Reclamation Costs***

The Company will be responsible for compliance with all applicable laws and regulations regarding the decommissioning, abandonment and reclamation of the Company's facilities at the end of their economic life, the costs of which may be substantial. It is not possible to predict these costs with certainty since they will be a function of regulatory requirements at the time of decommissioning, abandonment and reclamation. The Company may, in the future, be required by applicable laws or regulations to establish and fund one or more decommissioning, abandonment and reclamation reserve funds to provide for payment of future decommissioning, abandonment and reclamation costs, which could decrease funds available to the Company to execute its business plan and service debt obligations. In addition, such reserves, if established, may not be sufficient to satisfy such future decommissioning, abandonment and reclamation costs and the Company will be responsible for the payment of the balance of such costs.

### ***Contract Renegotiation***

Some of the Company's contract-based revenues are generated under contracts with terms which allow the customer to reduce or suspend performance under the contract in specified circumstances, such as the occurrence of a catastrophic event to the Company's or the customer's operations. The occurrence of an event which results in a material reduction or suspension of the Company's customer's performance could reduce the Company's profitability.

Many of the Company's contracts with third-party customers for producer field services have terms of one year or less. As these contracts expire, they must be extended and renegotiated or replaced. The Company may not be able to extend, renegotiate or replace these contracts when they expire, and the terms of any renegotiated contracts may not be as favorable as the contracts they replace. The Company faces intense competition in its gathering, transportation, terminalling and storage activities. Other providers of crude oil gathering, transportation, terminalling and storage services that are able to supply the Company's customers with those services at a lower price could reduce the Company's ability to compete in this industry. Additionally, the Company may incur substantial costs if modifications to the Company's terminals are required in order to attract substitute customers or provide alternative services. If the Company cannot successfully renew significant contracts or if the Company must renew them on less favorable terms, or if the Company incurs substantial costs in modifying its terminals, the Company's revenues from these arrangements could decline.

### ***Labour Relations***

The largest components of the Company's overall operating expenses are salary, wages, benefits and costs of contractors. Any significant increase in these expenses could impact the Company's financial results. In addition, the Company is at risk if there are any labour disruptions. The Company's refinery facility located at Moose Jaw, Saskatchewan is subject to a collective agreement with its employees and the Communications, Energy & Paperworkers Union of Canada, Local 595 (which expired on January 31, 2013 but will remain in effect until a new collective agreement is executed sometime in mid-June 2013) and certain Gibson Energy Partnership employees (operators and lab technicians at the Edmonton Terminal and Hardisty Terminal) are subject to an agreement with the Gibson Employees Association (which expires on December 31, 2013). Labour disruptions could restrict the



ability of the asphalt plant to process crude oil or the terminal and pipeline operations to operate and therefore affect the Company's financial results. The Company attempts to enter into union negotiations on a timely basis in light of the length of the collective agreements. However, the Company cannot guarantee that it will be able to successfully negotiate collective agreements prior to their expiration. Any work stoppages or unbudgeted or unexpected increases in compensation could have a material adverse effect on the Company's profitability.

### ***Technology***

The Company is dependent on technology for certain of its operations. For example, if the Company were to lose functionality of its SCADA system (due to loss of back-up power, servers, communication links or control interfaces), pipeline operations would cease due to loss of leak detection capability and the Company would no longer have the ability to receive, deliver, transfer or blend petroleum due to being unable to control valves and pumps and monitor flow rates and tank levels. The impact of short-term disruptions would typically be minimal due to the ability to re-schedule the planned activities and use spare capacity. Disruptions of longer duration would likely result in a loss of revenue.

### ***Jointly Owned Facilities***

Certain of the Company's facilities are jointly owned with third parties. Approvals must be obtained from such joint owners for proposals to make capital expenditures regarding such facilities. These approvals typically require that a capital expenditure proposal be approved by the owners holding a specified percentage of the ownership interests in the relevant facility. It may not be possible for the Company to obtain the required levels of approval from co-owners of facilities for future proposals for capital expenditures, which may adversely affect the Company's ability to expand or improve its jointly-owned facilities. In addition, agreements for joint ownership often contain restrictions on transfer of an interest in a facility. The most frequent restrictions require a transferor who is proposing to transfer an interest to offer such interest to the other holders of interests in the facility prior to completing the transfer. Such provisions may restrict the Company's ability to transfer its interests in facilities or to acquire partners' interests in facilities, and may also restrict the Company's ability to maximize the value of a sale of the Company's interest.

As part of the Company's effort to minimize these risks, the Company maintains communication with its co-owners through participation in operating committees and formal decision-making processes. The Company also utilizes its knowledge of industry activity and relationships with other owners to mitigate the risk of uncooperative behavior. However, there is no guarantee that the Company will be able to proceed with its plans for any facilities which are jointly owned.

### ***Legislative and Regulatory Changes***

The Company's industry is highly regulated. There can be no guarantee that laws and other government programs relating to the oil and gas industry, the energy services industry and the transportation industry will not be changed in a manner which directly and adversely affects the Company's business and there can be no assurance that the laws, regulations or rules governing the Company's customers will not be changed in a manner which adversely affects the Company's customers and, therefore, the Company's business.

In addition, the Company's pipelines and facilities are potentially subject to common carrier and common processor applications and to rate setting by regulatory authorities in the event agreement on fees or tariffs cannot be reached with producers. To the extent that producers believe processing fees or tariffs with respect to pipelines and facilities are too high, they may seek rate relief through regulatory means. If regulations were passed lowering or capping the Company's rates and tariffs, the Company's results of operations and cash flows could be adversely affected.

Petroleum products that the Company stores and transports are sold by the Company's customers for consumption into the public market. Various federal, provincial, state and local agencies have the authority to prescribe specific product quality specifications for commodities sold into the public market. Changes in product quality specifications or blending requirements could reduce the Company's throughput volume, require the Company to incur additional handling costs or require capital expenditures. For instance, different product specifications for different markets impact the fungibility of the products in the Company's system and could require the construction of additional storage. If the Company is unable to recover these costs through increased revenues, the Company's

cash flows could be adversely affected. In addition, changes in the quality of the products the Company receives on its petroleum products pipeline system could reduce or eliminate the Company's ability to blend products.

The Company's cross-border activities subject it to regulatory matters, including import and export licenses, tariffs, Canadian and U.S. customs and tax issues and toxic substance certifications. Such regulations include the Short Supply Controls of the Export Administration Act, the North American Free Trade Agreement and the Toxic Substances Control Act. Violations of these licensing, tariff and tax reporting requirements could result in the imposition of significant administrative, civil and criminal penalties.

In addition, income tax laws relating to the Company may be changed in a manner which adversely affects the Company.

### ***Environmental and Health and Safety Regulations***

Each of the Company's segments is subject to the risk of incurring substantial costs and liabilities under environmental and health and safety laws and regulations. These costs and liabilities arise under increasingly stringent environmental and health and safety laws, including regulations and governmental enforcement policies and legislation, and as a result of third party claims for damages to property or persons arising from the Company's operations. Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental legislation also requires that pipelines, facilities and other properties associated with the Company's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of projects may require the submission and approval of environmental impact assessments and the implementation of mitigative measures prior to the implementation of such projects.

Failure to comply with environmental and health and safety laws and regulations may result in assessment of administrative, civil and criminal penalties, imposition of remedial obligations such as cleanup and site restoration requirements and liens and potentially, the issuance of injunctions to limit or cease operations. If the Company were unable to recover these costs through increased revenues, the Company's ability to meet its financial obligations could be adversely affected.

The terminal and pipeline facilities that comprise the Company's petroleum products pipeline system have been used for many years to transport, distribute or store petroleum products. Over time the Company's operations, or operations by the Company's predecessors or third parties not under the Company's control, may have resulted in the disposal or release of hydrocarbons or wastes at or from these terminal properties and along such pipeline rights-of-way. In addition, some of the Company's terminals and pipelines are located on or near current or former refining and terminal sites, and there is a risk that contamination is present on those sites. The Company may be subject to strict joint and several liability under a number of these environmental laws and regulations for such disposal and releases of hydrocarbons or wastes or the existence of contamination, even in circumstances where such activities or conditions were caused by third parties not under the Company's control or were otherwise lawful at the time they occurred.

Further, the transportation of hazardous materials and/or other substances in the Company's pipelines may result in environmental damage, including accidental releases that may cause death or injuries to humans, damage to third parties and natural resources, and/or result in federal and/or provincial civil and/or criminal penalties that could be material to the Company's results of operations and cash flows.

The Company's Environmental Services segment engages in operations which use hazardous materials. As a result of these and other activities, the segment is subject to a variety of federal, state, local and foreign laws and regulations relating to the generation, transport, use handling, storage, treatment, exposure to and disposal of these materials, including record keeping, reporting, and registration requirements. The Environmental Services segment has incurred and expects to continue to incur expenditures to maintain compliance with environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which the Environmental Services segment is subject could become more stringent or be more stringently enforced in the future. Its failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures or remedial actions.

Additionally, certain environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act (the “CERCLA”) in the U.S., impose joint and several liability, without regard to fault, for cleanup costs on persons who have disposed of or released hazardous substances into the environment. Given the nature of the Environmental Services’ business, it has incurred, and will in the future periodically incur, liabilities under CERCLA or other environmental cleanup laws, at its current or former facilities, adjacent or nearby third party facilities, or offsite disposal locations. There can be no assurance that the costs associated with future cleanup activities that the Company may be required to conduct or finance will not be material. Additionally, Gibson may become liable to third parties for damages, including personal injury and property damage, resulting from the disposal or release of hazardous substances into the environment.

The Company believes that it is in substantial compliance with existing legislation. However, environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. The Company cannot ensure that the costs of complying with environmental legislation in the future will not have a material adverse effect on the Company’s financial condition or results of operations. The Company anticipates that changes in environmental legislation may require, among other things, reductions in emissions to the air from the Company’s operations and result in increased capital expenditures. Future changes in environmental legislation could occur and result in stricter standards and enforcement, larger fines and liability and increased capital expenditures and operating costs, which could have a material adverse effect on the Company’s financial condition or results of operations.

#### ***Future Climate Control Legislation***

The Federal Government of Canada has announced its intention to enact certain regulations in respect of GHGs and other pollutants. If enacted, these regulations may adversely affect the Company’s operations and increase its costs. These regulations may become more onerous over time as public and political pressures increase to implement initiatives that will reduce GHG emissions. There is also uncertainty as to the interplay between these federal regulations and the various provincial regulations with respect to GHG emissions.

In the Province of Alberta, regulations governing GHG emissions from large industrial facilities came into effect on July 1, 2007. The regulations apply to all facilities in Alberta that have produced 100,000 or more tonnes of CO<sub>2</sub>e in 2003 or any subsequent year. None of the Company’s Alberta facilities produce emissions above the threshold of 100,000 tonnes of CO<sub>2</sub>e annually. The Company does not expect ongoing compliance costs associated with these regulations at the Company’s facilities to have a material adverse effect on the Company’s operations or financial condition; however, these and future regulations enacted by the Alberta government may result in further regulatory requirements that could affect the Company’s business, but any such requirements are currently unknown. The Saskatchewan government is currently in a consultative process on new legislation respecting GHG emissions that, if enacted, could require emission reductions consistent with the federal regulatory plan under development. Regulations that may be enacted in Saskatchewan in respect of GHG reductions may have operational or financial adverse consequences for the Company’s business.

The U.S. Energy Independence and Security Act of 2007 precludes agencies of the U.S. federal government from procuring mobility-related fuels from non-conventional petroleum sources that have lifecycle GHG emissions greater than equivalent conventional fuel. This may have implications for the Company’s marketing of some heavy oil and oil sands production in the U.S., but the impact cannot be determined at this time.

On May 13, 2010, the USEPA issued its GHG “tailoring rule” that would, in two phases, impose requirements upon the U.S.’ largest emitters of GHGs. In addition, a number of U.S. states and some Canadian provinces have formed regional partnerships to regulate emissions of GHGs. New legislation or regulatory programs that restrict emissions of GHGs in areas where the Company conducts business could adversely affect the Company’s operations and demand for the Company’s services.

### ***Expansion of Operations***

The Company's operations and expertise are currently focused on midstream oil and gas activities; however, in the future it is possible that the Company could engage in other activities. Expansion of the Company's business into new areas may present new risks or significantly increase the exposure to one or more of the existing risks, any of which may adversely affect future operational and financial conditions.

### ***Litigation Risk***

The Company is not a party to any material litigation. However, if any legitimate cause of action arose which was successfully prosecuted against the Company, the Company's operations or results of operations could be adversely affected.

### ***Capital Expenditures by Oil and Gas Companies***

Declines in capital expenditures to explore, develop and produce oil and natural gas by oil and gas companies, could result in project modification, delays or cancellations and thereby significantly reducing the Company's cash flows and revenues, including provision of environmental services and sale of wellsite fluids. Customers' expectations for lower market prices for oil and natural gas, as well as the availability of capital for operating and capital expenditures, may also cause customers to curtail spending, thereby reducing demand for the Company's services.

Industry conditions are influenced by numerous factors, over which the Company has no control, including:

- domestic and worldwide supplies of crude oil and petroleum products;
- changes in the level of consumer demand;
- the price and availability of alternative fuels;
- the availability, proximity and capacity of pipelines, other transportation facilities and processing facilities;
- the level and effect of trading in commodity futures markets, including by commodity price speculators and others;
- the price and level of foreign imports;
- the nature and extent of domestic and foreign governmental regulations and taxes;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- political instability or armed conflict in oil and natural gas producing regions; and
- overall domestic and global economic and market conditions.

The volatility of the oil and natural gas industry and the impact on exploration and production activity could adversely impact the level of drilling activity by some customers or in some of the regions in which the Company operates. Any reduction in activity may cause a decline in the demand for the Company's products and services or adversely affect the price of products and services, and the financial results of operations, particularly if rigs are moved to areas in which the Company does not currently operate. In addition, reduced discovery rates of new oil and natural gas reserves in the Company's market areas also may have a negative long-term impact on its business, even in an environment of stronger oil and natural gas prices, to the extent existing production is not replaced and the number of producing wells to service declines.

## **Financial and Other Risks**

### ***Indebtedness***

The Company has, and will continue to have, a significant amount of indebtedness. As of December 31, 2012, Gibson had U.S. \$645.1 million outstanding of aggregate principal under the Tranche B Term Loan and access to the Revolving Credit Facility.

The Company's substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for the Company to satisfy its obligations under its indebtedness;
- require the Company to further dedicate a substantial portion of its cash flow from operations to payments of principal and interest on its indebtedness, thereby reducing the availability of its cash flow to fund acquisitions, working capital, capital expenditures, research and development efforts and other general corporate purposes;
- increase the Company's vulnerability to and limit its flexibility in planning for, or reacting to, downturns or changes in its business and the industry in which it operates;
- restrict the Company from making strategic acquisitions or cause it to make non-strategic divestitures;
- expose the Company to the risk of increased interest rates as borrowings under the Credit Facility are subject to variable rates of interest;
- place the Company at a competitive disadvantage compared to its competitors that have less debt; and
- limit the Company's ability to borrow additional funds.

### ***Debt Service and Refinancing***

The Company's ability to make cash payments on its indebtedness and to fund planned capital expenditures will depend on its ability to generate significant operating cash flow in the future. This, to a significant extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company's control.

The Company cannot make assurances that its business will generate sufficient cash flow from operations or that future borrowings will be available to it under its Credit Facility in an amount sufficient to enable it to pay its indebtedness or to fund its other liquidity needs. In such circumstances, the Company may need to refinance all or a portion of its indebtedness on or before maturity. The Company cannot make assurances that it will be able to refinance any of its indebtedness on commercially reasonable terms or at all. If the Company cannot service its indebtedness, it may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances or reducing/eliminating its dividend. The Company cannot make assurances that any such actions, if necessary, could be effected on commercially reasonable terms or at all.

If the Company is unable to generate sufficient cash flow or is otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on its indebtedness, or if the Company otherwise fails to comply with the various covenants in the instruments governing its indebtedness, the Company could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Revolving Credit Facility could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against the Company's assets, and the Company could be forced into bankruptcy or liquidation.

If the Company's operating performance declines, it may in the future need to obtain waivers from the required lenders under the Credit Facility to avoid being in default. If the Company or any of its subsidiaries breach the covenants under the Revolving Credit Facility and seek a waiver, the Company may not be able to obtain a waiver from the required lenders. If this occurs, the Company would be in default under the Credit Facility, the lenders could exercise their rights, as described above, and the Company could be forced into bankruptcy or liquidation.

### ***Additional Indebtedness***

The Company and its subsidiaries may be able to incur additional indebtedness in the future because the Credit Facility does not fully prohibit Gibson or its subsidiaries from doing so, subject to certain conditions. If new debt is added to Gibson's current debt levels the related risks that the Company faces could intensify.

### ***Issuance of Additional Securities***

The Board may issue an unlimited number of Common Shares without any vote or action by the Company's Shareholders, subject to the rules of any stock exchange on which the Company's securities may be listed from time to time. The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities. In addition, pursuant to the Company's 2011 Equity Incentive Plan, the Company may issue securities exercisable to acquire, together with Common Shares issuable pursuant to any other security-based compensation arrangements of the Company, up to 7,947,500 Common Shares. If the Company issues any additional equity, the percentage ownership of existing Shareholders will be reduced and diluted and the market price of the Common Shares may be adversely impacted.

### ***Cash Dividend Payments are Not Guaranteed***

The payment of dividends is not guaranteed and will fluctuate with the performance of the Company. The Board has the discretion to determine the amount of dividends to be declared and paid to shareholders. The Company may alter its position on dividends at any time and the payment of dividends will depend on, among other things, results of operations, financial condition, current and expected future levels of earnings, operating cash flow, liquidity requirements, market opportunities, income taxes, maintenance capital, growth capital expenditures, debt repayments, legal, regulatory and contractual constraints, working capital requirements, tax laws and other relevant factors. The Company's short and long term instruments of indebtedness may prohibit the Company from paying dividends at any time at which a default or event of default would exist under such debt, or if a default or event of default would exist as a result of paying the dividend.

Over time, the Company's capital and other cash needs may change significantly from its current needs, which could affect whether the Company pays dividends and the amount of any dividends it may pay in the future. If the Company continues to pay dividends at the current level, it may not retain a sufficient amount of cash to finance growth opportunities, meet any large unanticipated liquidity requirements or fund its operations in the event of a significant business downturn. The Board, subject to the requirements of the Company's bylaws and other governance documents, may amend, revoke or suspend the Company's dividend at any time. A decline in the market price or liquidity, or both, of the Common Shares could result if the Board establishes large reserves that reduce the amount of quarterly dividends paid or if the Company reduces or eliminates the payment of dividends, which could result in losses to Shareholders.

The Company has adopted a DRIP but the extent to which eligible Shareholders will participate and continue to participate in the DRIP in the future is unknown. The DRIP may have a negative impact on the market price of the Common Shares and there is no guarantee that the DRIP will continue to remain in place. The Company may amend, suspend or terminate the DRIP at any time.

### ***Capital Markets***

The market events and conditions witnessed over the past several years, including disruptions in international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility in commodity prices and interest rates at which the Company is able to borrow funds for capital programs. Continued uncertainty in the global economic situation means that the Company, along with all other oil and gas entities, may face restricted access to capital and increased borrowing costs. This could have an adverse effect on the Company, as future capital expenditures will be financed out of cash generated from operations and borrowings, and the Company's ability to borrow is dependent on, among other factors, the overall state of the capital markets and investor appetite for investments in the energy industry generally and our securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, Gibson's ability to make capital investments and maintain existing properties may be impaired, and the business, financial condition, results of operations and cash flow may be materially adversely affected as a result.

### ***Hedging***

The Company monitors its exposure to variations in commodity prices, interest rates and foreign exchange rates. In response, the Company periodically enters into financial instruments to reduce exposure to unfavourable movements in commodity prices, interest rates and foreign exchange rates. The terms of these contracts or instruments may limit the benefit of favourable changes in commodity prices, interest rates and currency values and may result in financial opportunity loss.

### ***Foreign Exchange Risk***

The Company's results are affected by movements in the exchange rate between the Canadian and U.S. dollar. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the Canadian dollar equivalent of revenues the Company receives from its U.S. activities and U.S. dollar denominated activities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the Canadian dollar equivalent of revenues received from the Company's U.S. activities and U.S. dollar denominated activities. In addition, a change in the value of the Canadian dollar against the U.S. dollar will result in an increase or decrease in the Company's U.S. dollar denominated debt, as expressed in Canadian dollars, as well as in the related interest expense. While a portion of the Company's sales generate cash denominated in U.S. dollars, to the extent that such U.S. dollar denominated cash is less than the amounts required to service the Company's U.S. dollar denominated debt and pay other U.S. dollar denominated expenses, the Company is exposed to currency fluctuations and exchange rate risks that may adversely affect the Company's results of operations. The Company's practice is to selectively hedge its exposure to foreign currencies related to the Company's ongoing operations, including to the U.S. dollar, through the use of forward and option contracts. In addition, the Company has entered into hedging arrangements with respect to a portion of the principal of the Company's U.S. dollar denominated debt. However, there can be no guarantee that the Company will be able to fully mitigate its exposure to foreign exchange risk.

### ***Interest Rate Risk***

The indebtedness under the Tranche B Term Loan or borrowings under the Revolving Credit Facility are at variable rates of interest and expose the Company to interest rate risk. If interest rates increase, the Company's debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and the Company's net income and cash flows would decrease. The Company's practice is to selectively hedge its exposure to interest rate risk. The Company has entered into interest rate hedging arrangements with respect to a portion of the Company's Tranche B Term Loan. However, there can be no guarantee that the Company will be able to fully mitigate its exposure to interest rate risk.

### ***Access to Credit***

The Company's significant debt levels could restrict its ability to access open credit from the Company's suppliers, who may require increased performance assurances. If the Company is unable to access open credit from its suppliers or provide performance assurance, the Company's ability to purchase product could be decreased and the Company's financial condition and results of operations could be negatively impacted.

### ***Access to New Capital***

Any material acquisition or internal growth project will require access to capital. Any limitations on the Company's access to capital, or increase in the cost of that capital, could significantly impair the Company's growth strategy. The Company's inability to maintain its targeted credit profile, including maintaining its credit ratings, could affect its cost of capital as well as the Company's ability to execute its growth strategy.

## ***Insurance***

The Company currently maintains customary insurance of the types and amounts consistent with prudent industry practice; however, the Company is not fully insured against all risks incident to the Company's business. The Company is not obliged to maintain any such insurance if it is not available on commercially reasonable terms. There can be no guarantee that such insurance coverage will be available in the future on commercially reasonable terms or at commercially reasonable rates or that the amounts for which the Company is insured, or the proceeds of such insurance, will compensate the Company fully for the Company's losses. In addition, the insurance coverage obtained with respect to the Company's business and facilities will be subject to limits and exclusions or limitations on coverage that are considered by management to be reasonable, given the cost of procuring insurance and current operating conditions. There can be no assurance that the insurance proceeds received by the Company in respect of a claim will be sufficient in any particular situation to fully compensate the Company for losses and liabilities suffered. If a significant accident or event occurs that is not fully insured, it could adversely affect the Company's results of operations, financial position or cash flows.

## ***Effective Internal Controls***

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company takes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could impact the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and reduce the trading price of the Common Shares.

At the operational level, the Company relies on electronic systems for recording of sales and accumulation of financial data. A major breakdown of the Company's computer systems would disrupt the flow of information and could cause a loss of records. The conversion and upgrade of electronic systems could result in lost or corrupt data which could impact the accuracy of financial reporting and management information.

## **DIRECTORS AND EXECUTIVE OFFICERS**

<b>Name, Province/State and Country of Residence</b>	<b>Position</b>	<b>Director Since</b>	<b>Principal Occupation During the Past Five Years</b>
A. Stewart Hanlon <sup>(3)</sup> ..... Alberta, Canada	Director, President and Chief Executive Officer	June 15, 2011	President and Chief Executive Officer of the Company since April 2009, prior thereto, Executive Vice President and Chief Operating Officer
Donald A. Fowlis..... Alberta, Canada	Chief Financial Officer	N/A	Chief Financial Officer of the Company since May 10, 2012, prior thereto, Senior Vice President, Finance
Rodney J. Bantle..... Alberta, Canada	Senior Vice President Truck Transportation	N/A	Senior Vice President Truck Transportation of the Company since April 2009, prior thereto, Vice President Truck Transportation of the Company



Samuel van Aken..... Alberta, Canada	Senior Vice President Propane and NGL Marketing & Distribution	N/A	Senior Vice President Propane and NGL Marketing & Distribution of the Company since April 2009, prior thereto, Vice President Canwest Propane of the Company
Douglas P. Wilkins..... Alberta, Canada	Senior Vice President Marketing, Supply and Trading	N/A	Senior Vice President Marketing, Supply and Trading of the Company since April 2009, prior thereto, President of Tidal Energy Marketing, Inc.
Richard M. Wise..... Alberta, Canada	Senior Vice President Operations	N/A	Senior Vice President Operations of the Company since October 2009, prior thereto, Vice President, Engineering Regulatory and Midstream Development of CCS Corporation
Brian J. Recatto Louisiana, USA	Senior Vice President Environmental Services	N/A	Senior Vice President, Environmental Services of the Company since October 2012, prior thereto, President and Chief Executive Officer of OMNI
James M. Estey <sup>(2)</sup> ..... Ontario, Canada	Director	June 15, 2011	Retired investment banker, formerly the Chairman of UBS Securities Canada Inc. and, prior thereto, President and Chief Executive Officer of UBS Securities Canada
Donald R. Ingram <sup>(1)(3)</sup> .... Alberta, Canada	Director	June 15, 2011	President and Chief Executive Officer of CamCar & Associates
Marshall L. McRae <sup>(1)</sup> ..... Alberta, Canada	Director	June 15, 2011	Independent financial and management consultant since August 2009 and, prior thereto, Chief Financial Officer of CCS Inc.
Robert M. Tichio <sup>(2)</sup> ..... New York, USA	Director	June 15, 2011	Managing Director of Riverstone Holdings LLC
Andrew W. Ward <sup>(1)</sup> ..... New York, USA	Director and Chairman of the Board of Directors	June 15, 2011	Partner and Managing Director of Riverstone Holdings LLC
Clayton H. Woitas <sup>(2)(3)</sup> ... Alberta, Canada	Lead Director	June 15, 2011	Chairman and Chief Executive Officer of Range Royalty Management Ltd. and interim President and Chief Executive Officer of Encana Corporation since January 2013

(1) Member of the Audit Committee.

(2) Member of the Corporate Governance, Nominating and Compensation Committee.

(3) Member of the Health, Safety, Security and Environment Committee.

Shareholders elect the directors of the Company at each annual meeting of the Shareholders. The directors of the Company serve until the next annual meeting of the Company's Shareholders or until their successors are duly elected or appointed. As of the date hereof, all of the Company's Directors are "independent" within the meaning of National Instrument 58-101 (*Disclosure of Corporate Governance Practices*), adopted by the Canadian Securities Administrators, with the exception of Mr. Hanlon, who is the President and Chief Executive Officer of the Company.

The Board of Directors has three committees, being the Audit Committee, the Corporate Governance, Nominating and Compensation Committee and the Health, Safety, Security and Environment Committee. Additional information regarding the responsibilities of these committees will be contained in the Company's information circular for its annual meeting of Shareholders to be held on May 8, 2013.

As of the date of this AIF, the directors and executive officers of the Company beneficially own, or control or direct, directly or indirectly, 497,777 Common Shares, representing less than half of a percent of the issued and outstanding Common Shares (not including any Common Shares issuable pursuant to the exercise of the issued and outstanding stock options, DSUs, PSUs or RSUs).

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

The Audit Committee Charter is set forth in Appendix "A" to this AIF.

### **Audit Committee Structure and Responsibilities**

The Audit Committee has been structured to comply with the requirements of National Instrument 52-110 Audit Committees ("**NI 52-110**"). The Company has determined that each of the members of the Audit Committee possesses: (i) an understanding of the accounting principles used by the Company to prepare its financial statements; (ii) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and (iv) an understanding of internal controls and procedures for financial reporting. The Audit Committee meets at least once each financial quarter to fulfill its mandate.

The Audit Committee's primary role is to assist the Board in fulfilling its oversight responsibilities regarding the Company's internal controls, financial reporting and risk management processes.

The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services, including the resolution of disagreements between the external auditor and management. The external auditor reports directly to the Audit Committee. The Audit Committee is also responsible for reviewing and approving the Company's hiring policies regarding current and former partners and employees of the external auditor. In addition, the Audit Committee pre-approves all non-audit services undertaken by the external auditor.

The Audit Committee is responsible for establishing and maintaining satisfactory procedures for the receipt, retention and treatment of complaints and for the confidential, anonymous submission by employees of the Company regarding any questionable accounting or auditing matters. The Audit Committee is accountable to the Board and will provide a report to the Board at each regularly scheduled Board meeting outlining the results of the Audit Committee's activities and any reviews it has undertaken.

## Composition of the Audit Committee

The Company's Audit Committee is comprised of Marshall L. McRae, as Chairman, Andrew W. Ward and Donald R. Ingram, each of whom is financially literate and independent within the meaning of NI 52-110 of the Canadian Securities Administrators. In connection with the sale of all of the remaining Common Shares held by Co-op, an affiliate of Riverstone of which Mr. Ward is a principal, Mr. Ward became independent as of March 27, 2012. Set forth below are additional details regarding each member of the Audit Committee.

**Marshall L. McRae** has been an independent financial and management consultant since August 2009. Prior thereto, Mr. McRae was Chief Financial Officer of CCS Inc., administrator of CCS Income Trust and its successor corporation, CCS Corporation, since August 2002. Mr. McRae has over 25 years of experience in senior operating and financial management positions with a number of publicly traded and private companies, including CCS Inc., Versacold Corporation and Mark's Work Wearhouse Limited. Mr. McRae is a director and chairman of the audit committee of Athabasca Oil Corporation. This experience combined with a Bachelor of Commerce degree, with Distinction, from the University of Calgary obtained in 1979, and a Chartered Accountant designation from the Institute of Chartered Accountants of Alberta obtained in 1981, provide Mr. McRae with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

**Andrew W. Ward** is currently a Partner and Managing Director of Riverstone, where he has been since 2002. Prior to joining Riverstone, Mr. Ward was a Limited Partner and Managing Director of Hyperion Partners/Ranieri & Co. Mr. Ward currently serves on the board of directors of Niska Gas Storage Partners, LLC, Mistral Energy, PVR Partners, LP., USA Compression Partners LP and Hestya Energy. Mr. Ward received his A.B. from Dartmouth College and his M.B.A. from the UCLA Anderson School of Management. This academic and business experience provides Mr. Ward with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

**Donald R. Ingram** is President and Chief Executive Officer of CamCar & Associates, Chairman of the Board of SilverWillow Energy Corporation and he is also a director of the Calgary Airport Authority. Mr. Ingram is a former director of NAL Energy Corporation and the former Chair of SilverBirch Energy Corporation. Mr. Ingram has over 30 years of experience in the oil and gas industry including as Senior Vice President of Husky Energy Inc., responsible for the Midstream and Downstream Operations, and Chairman of the Board of Sultran Limited, the Oil and Gas Industry's Sulphur Logistics Company. Mr. Ingram received a Diploma of Business Administration from Mount Royal University; he is a Certified Management Accountant and was made a Fellow of the Society of Management Accountants of Canada in 1999. This academic and business experience provides Mr. Ingram with the skill set and financial literacy to carry out his duties as a member of the Audit Committee.

## CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

### *Cease Trade Orders*

To the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such persons) is, as of the date of this AIF, or was within ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "Order"), and that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### ***Bankruptcies***

To the knowledge of the Company, other than as set forth below, no director or executive officer of the Company (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company: (a) is, as of the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

On July 22, 2008, SemGroup L.P. (“SemGroup”), the parent entity of the various SemGroup subsidiaries, filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the District of Delaware. Carlyle/Riverstone Global Energy and Power Fund II, L.P. (“C/R II”), C/R Energy Coinvestment II, L.P. and C/R SemGroup Investment Partnership, L.P., all Riverstone investment vehicles (the “C/R Entities”), held an approximately 29% interest in SemGroup. Andrew W. Ward, a director of the Company, served on the management committee of the general partner of SemGroup as a designee of the C/R Entities. Andrew W. Ward was not an officer of SemGroup or any of its subsidiaries.

### ***Penalties or Sanctions***

To the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### ***Conflicts of Interest***

Certain of the directors and officers of the Company are engaged in, and may continue to be engaged in, other activities in the industries in which the Company operates from time to time. As a result of these and other activities, certain directors and officers of the Company may become subject to conflicts of interest from time to time. The ABCA provides that in the event that an officer or director is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or material transaction or proposed material contract or proposed material transaction, such officer or director shall disclose the nature and extent of his or her interest and shall refrain from voting to approve such contract or transaction, unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

As of the date hereof, the Company is not aware of any existing or potential material conflicts of interest between the Company and any director or officer of the Company.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

There are no legal proceedings that the Company is or was a party to, or that any of the Company’s property is or was the subject of, since January 1, 2012, that were or are material to the Company, and there are no such material legal proceedings that the Company knows to be contemplated. For the purposes of the foregoing, a legal proceeding is not considered to be “material” by the Company if it involves a claim for damages and the amount involved, exclusive of interest and costs, does not exceed 10% of the Company’s current assets, provided that if any proceeding presents in large degree the same legal and factual issues as other proceedings pending or known to be contemplated, the Company has included the amount involved in the other proceedings in computing the percentage. See “Risk Factors”.

There were no: (i) penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years immediately preceding the date of this AIF; (ii) other penalties or sanctions imposed by a court or regulatory body against the Company that the Company believes must be disclosed for this AIF to contain full, true and plain disclosure of all material facts relating to the Common Shares; or (iii) settlement agreements the Company entered into before a court relating to provincial and territorial securities legislation or with a securities regulatory authority, during the financial year ended December 31, 2012.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as otherwise set out herein, there were no material interests, direct or indirect, of any director or executive officer of the Company, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of such persons or companies, in any transaction within the three most recently completed financial years that has materially affected or is reasonably expected to materially affect the Company or a subsidiary of the Company.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent, registrar and dividend distribution agent for the Common Shares is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

## **EXPERTS**

PricewaterhouseCoopers LLP has prepared the audit report on the consolidated financial statements of the Company for the year ended December 31, 2012. PricewaterhouseCoopers LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available via SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans will be contained in the Company's information circular for its next annual general meeting of Shareholders that involves the election of directors. Additional financial information is contained in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2012.

## **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets out the fees of the external auditor during the prior two years for services provided to Gibson (in thousands):

	Year ended December 31,	
	2012	2011
Audit Fees	\$ 747	\$ 630
Audit-related fees	115	110
Tax fees	256	22
All other fees	146	461
Total fees	<u>\$ 1,264</u>	<u>\$ 1,223</u>

Audit fees include fees for the audit of our consolidated financial statements and the review of our quarterly reports.

Audit-related fees include fees for services that are related to the audit of the consolidated financial statements, including consultation with respect to IFRS, consultation on accounting and disclosure matters and audit of pension plans.

Tax fees include fees for assistance in the preparation of income tax returns, assistance with establishing a financing structure with respect to the acquisition of OMNI and advice on certain tax-related matters.

All other fees include fees for professional services related to the Offering, the issuances of the Company's indebtedness and professional services related to the filing of the Company's registration statements and an annual subscription to accounting research software.

## APPENDIX “A” AUDIT COMMITTEE CHARTER

### A. POLICY STATEMENT

It is the policy of Gibson Energy Inc. (the “**Company**”) to establish and maintain an audit committee (the “**Committee**”) to assist the Board of Directors (the “**Board**”) in carrying out its oversight responsibility regarding the Company’s internal controls, financial reporting and risk management processes. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If determined necessary by the Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

### B. REPORTING AND ACCOUNTABILITY

1. The Committee is accountable to the Board. The Committee shall, after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.
2. All information reviewed and discussed by the Committee at any meeting shall be retained and made available for examination by the Board.
3. The Committee shall review and assess the adequacy of this Charter periodically and, where necessary, will recommend changes to the Board for its approval.
4. Each year the Committee and each member thereof shall review and evaluate its performance and submit itself to a review and assessment by the Board.

### C. COMPOSITION OF THE COMMITTEE

1. The Committee will consist of at least three Directors appointed annually by the Board. The Board may seek the advice of the Corporate Governance, Compensation and Nomination Committee in identifying qualified candidates. Each year the Board will designate one member as a chairman of the Committee (the “**Chair**”).
2. Each director appointed to the Committee by the Board shall be independent (as defined by National Instrument 52-110 — Audit Committees (or any successor instrument) of the Canadian Securities Administrators (“**NI 52-110**”)) except to the extent permitted by NI 52-110.
3. Each member of the Committee shall be “financially literate.” In order to be financially literate, a director must be, at a minimum, able to read and understand basic financial statements, and at least one member shall have “accounting or related financial management expertise”, meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles recognized by the Canadian Institute of Chartered Accountants from time to time and applicable to publicly accountable enterprises (“**GAAP**”).
4. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

### D. MEETINGS OF THE COMMITTEE

1. The Committee shall meet as often as it determines necessary, but not less frequently than quarterly at such times and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee or a senior officer of the Company.
2. Notice of each meeting of the Committee shall be given by the Chair to each member of the Committee and to the external auditors of the Company, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee.

3. Notice of a meeting of the Committee shall:
  - (a) be in writing;
  - (b) state the nature of the business to be transacted at the meeting in reasonable detail, in the form of an agenda;
  - (c) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
  - (d) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
4. A quorum for a meeting of the Committee shall consist of a simple majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of certain important matters by all members of the Committee. The presence in person or by telephone of a majority of the Committee's members constitutes a quorum for any meeting.
5. The affirmative vote of a majority of the members of the Committee participating in any meeting of the Committee at which a majority of the members constituting a quorum are present is necessary for the adoption of any resolution.
6. A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
7. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting. In addition, the Chair of the Committee shall choose one of the persons present to be the Secretary of the meeting.
8. The Chairman of the Board, directors of the Company who are not members of the Committee, senior management of the Company and other parties invited by the Committee may attend meetings of the Committee on a non-voting basis; however the Committee (a) shall meet with the external auditors independent of management, as necessary, in the sole discretion of the Committee, but in any event, not less than quarterly; and (b) may meet separately with management. The Committee may request any officer or employee of the Company or the Company's legal counsel to attend all or parts of a Committee meeting, or to meet with any members of, or consultants to, the Committee.
9. Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the Secretary of the meeting. A report in respect of each meeting of the Committee shall be provided to the Board.

## **E. DUTIES AND RESPONSIBILITIES**

### **1. Committee's Authority**

The Committee shall have the authority to:

- (a) inspect any and all of the books and records of the Company, its subsidiaries and affiliates;
- (b) discuss with the management of the Company, its subsidiaries and affiliates and senior staff of the Company, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate;
- (c) engage independent counsel and other advisors as it determines necessary to carry out its duties; and
- (d) set and pay the compensation for any advisors employed by the Committee.



## **2. Oversight in Respect of Risk Management**

The Committee shall:

- (a) identify and monitor the principal risks that could affect the financial reporting of the Company;
- (b) review and assess the adequacy of the Company's risk management policies, systems, controls and procedures with respect to the Company's principal business risks, and report regularly to the Board;
- (c) monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- (d) deal directly with the external auditors to approve external audit plans, other services (if any) and the external auditors' fees;
- (e) directly oversee the external audit process and results (in addition to items described in Section 5 below);
- (f) review the amount and terms of any insurance to be obtained or maintained by the Company with respect to risks inherent in its operations and potential liabilities incurred by the directors or officers in the discharge of their duties and responsibilities; and
- (g) provide an avenue of communication among the external auditors, management and the Board.

## **3. Oversight in Respect of Internal Controls**

The Committee shall:

- (a) monitor the quality and integrity of the Company's system of internal controls, disclosure controls and management information systems through discussions with management and the external auditors;
- (b) oversee the system of internal controls by: (i) consulting with the external auditors regarding the effectiveness of the Company's internal controls; (ii) monitoring policies and procedures for internal accounting, financial controls and management information, electronic data controls and computer security; (iii) obtaining from management adequate assurances that all statutory payments and withholdings have been made; and (iv) taking other actions as considered necessary;
- (c) oversee investigations of alleged fraud and illegality relating to the Company's finances and any resulting actions;
- (d) be responsible for establishing, maintaining and reviewing on a periodic basis, procedures for: (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- (e) review and discuss with the Chief Executive Officer and Chief Financial Officer of the Company the procedures undertaken in connection with the Chief Executive Officer and Chief Financial Officer certifications for the annual and/or quarterly filings with applicable securities regulatory authorities;
- (f) review disclosures made by the Chief Executive Officer and Chief Financial Officer to the Company during their certification process for annual and/or quarterly financial statements with applicable securities regulatory authorities about any significant deficiencies in the design or operation of internal controls which adversely affect the Company's ability to record, process, summarize and report financial data or any material weaknesses in the internal controls, and any fraud involving management or other employees of the Company who have a significant role in the Company's internal controls; and
- (g) review or satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted from the Company's financial statements and periodically assess the adequacy of those procedures.

#### **4. Oversight in Respect of the External Auditors**

The Committee shall:

- (a) be directly responsible for overseeing the work of the external auditors (including the resolution of any disagreements between management and the external auditors regarding financial reporting), monitor the independence and performance of the external auditors and annually recommend to the Board the appointment and compensation of the external auditors or the discharge of the external auditors when circumstances are warranted;
- (b) consider the recommendations of management in respect of the appointment of the external auditors;
- (c) pre-approve all non-audit services to be provided to the Company by the external auditors, or the external auditors of the Company's subsidiaries;
- (d) approve the engagement letter for non-audit services to be provided by the external auditors or affiliates, together with estimated fees, and considering the potential impact of such services on the independence of the external auditors;
- (e) when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditor and documentation required pursuant to National Instrument 51-102 —Continuous Disclosure Obligations (or any successor instrument) of the Canadian Securities Administrators and the planned steps for an orderly transition period; and
- (f) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.

#### **5. Oversight in Respect of the Annual Audit, Financial Disclosure and Accounting Practices**

The Committee shall:

- (a) review the Company's audit plan with the external auditors and management;
- (b) discuss with management and the external auditors any proposed changes in major accounting policies, standards or principles, the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;
- (c) review with management and the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
- (d) review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
- (e) confirm through discussions with management and the external auditors that GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with;
- (f) review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Company's financial statements, and the disclosure of such in the financial statements;
- (g) meet with management and the external auditors to review, and to recommend to the Board for approval prior to public disclosure, the audited annual financial statements and unaudited quarterly financial statements, including reviewing the report of the external auditors, the specific disclosures in the management's discussion and analysis, and the quarterly interim reports;
- (h) meet with management and the external auditors to review and discuss, and to recommend to the Board for approval prior to public disclosure:
  - (i) the annual information form;
  - (ii) the portions of the management proxy circular, for any annual or special meeting of shareholders, containing significant information within the Committee's mandate;

- (iii) all audited and unaudited financial statements included in prospectuses or other offering documents;
  - (iv) all prospectuses and all documents which may be incorporated by reference in a prospectus, other than any pricing supplement issued pursuant to a shelf prospectus;
  - (v) any significant financial information respecting the Company contained in a material change report;
  - (vi) any unaudited interim financial statements, other than quarterly statements;
  - (vii) any audited financial statements, other than annual statements, required to be prepared regarding the Company or its subsidiaries or benefit plans if required to be made publicly available or filed with a regulatory agency;
  - (viii) each press release that contains significant financial information respecting the Company or contains estimates or information regarding the Company's future financial performance or prospects (such as annual and interim earnings press releases);
  - (ix) the type and presentation of information to be included in such press releases (in particular, the use of "pro forma" or "adjusted" non-GAAP information); and
  - (x) financial information and any earnings guidance proposed to be provided to analysts and rating agencies; and
- (i) discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses.

## **6. Oversight in Respect of Other Items**

The Committee shall:

- (a) review with management at least annually the financing strategy and plans of the Company;
- (b) review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process;
- (c) enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters which are directed to the Committee by any member of the Board, a shareholder of the Company, the external auditors or management;
- (d) periodically review with management the responsibilities, performance and effectiveness of the internal audit function of the Company;
- (e) review the Company's accounting and reporting of environmental costs, liabilities and contingencies;
- (f) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors;
- (g) assess, on an annual basis, the adequacy of this Charter and the performance of the Committee; and
- (h) be responsible for meeting separately, on a periodic basis, with the internal auditors (or other personnel responsible for the internal audit function).

## **7. Approval of Audit and Permitted Non-Audit Services Provided by the External Auditors**

- (a) Over the course of any year there will be two levels of approvals that will be provided. The first is the existing annual Committee approval of the audit engagement and identifiable permitted non-audit services for the coming year. The second is in-year Committee pre-approvals of proposed audit and permitted non-audit services as they arise.
- (b) Any proposed audit and permitted non-audit services to be provided by the external auditors to the Company or its subsidiaries must receive prior approval from the Committee. The Chief Financial Officer of the Company shall act as the primary contact to receive and assess any proposed engagements from the external auditors.

- (c) The Committee is also authorized to approve non-audit services that may be provided by a party that is not the external auditors. Examples may be a quarterly review or consulting advice relating to the quarterly financial statements (which the Committee may approve without committing the Company to have a quarterly review of the financial statements on an ongoing basis), tax advice and tax consulting services, or any other consulting services that the Committee determines that it will obtain from any party that is not the external auditors.
- (d) Following receipt and initial review for eligibility by the primary contacts, a proposal would then be forwarded to the Committee for review and confirmation that a proposed engagement is permitted.
- (e) In the majority of such instances, proposals may be received and considered by the Chair (or such other member of the Committee who may be delegated authority to approve audit and permitted non-audit services), for approval of the proposal on behalf of the Committee. The Chair will then inform the Committee of any approvals granted at the next scheduled meeting.

## **8. Limitations on Oversight Function**

Notwithstanding the foregoing oversight responsibilities of the Board:

- (a) management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements as well as the Company's financial reporting process, accounting policies, internal audit function, internal controls over financial reporting and disclosure controls and procedures;
- (b) the external auditors are responsible for performing an audit of the Company's annual financial statements, expressing an opinion as to the conformity of such annual financial statements with GAAP, and reviewing the Company's quarterly financial statements;
- (c) it is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosure are complete and accurate or that they were prepared in accordance with GAAP or any other applicable laws, rules and regulations;
- (d) each member of the Committee shall be entitled to rely on the integrity of those persons within the Company and the integrity of the professionals and experts (including the Company's internal auditor (or others responsible for the internal audit function, including contracted non-employee or audit or accounting firms engaged to provide internal audit services), if any, and the Company's external auditors) from which the Committee receives information and, absent actual knowledge to the contrary, the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts; and
- (e) auditing literature discusses the objectives of a "review", including a particular set of required procedures to be undertaken by external auditors. The members of the Committee are not independent auditors, and the term "review" as used in this Charter is not intended to have that meaning and should not be interpreted to suggest that the Committee members can or should follow the procedures required of auditors performing reviews of financial statements.