

Section 86.1 Information for Canadian Shareholders of Valero Energy Corporation and Additional Information for Quebec Income Tax Filers

Where a Canadian shareholder of the share(s) of a foreign company receives a distribution of shares (“spin-off shares”) from the company as a result of an eligible corporate reorganization (“spin-off”), section 86.1 of the federal Canadian *Income Tax Act* (the “Act”) may permit such a spin-off share distribution to pass on a rollover basis (e.g., taxation of any gains is deferred) to the shareholder, provided the shareholder complies with certain filing requirements specified in section 86.1 of the Act. This memo provides a basic overview of the election requirements pursuant to section 86.1 of the Act as they may apply to the May 1, 2013 Valero Energy Corporation spin-off of the shares of CST Brands, Inc., which has been approved by the Canada Revenue Agency (the “CRA”) as eligible for Canadian federal income tax purposes, but offers no accounting or tax guidance, as a specialist should be consulted for those purposes. Additional information to Quebec income tax filers is provided in a separate section below.

Basic Overview – Section 86.1 Election Requirements

In order for the spin-off shares on an eligible distribution to pass on a rollover basis to the shareholder, paragraph 86.1(2)(f) of the Act requires the taxpayer to provide the following documentation and information to the CRA:

1. a letter addressed to the CRA stating that the shareholder wishes section 86.1 of the Act to apply to the spin-off share distribution that has been approved by the CRA (a letter is used because there is currently no prescribed form for this specific election);
2. the letter must be filed with the shareholder’s income tax return, within the prescribed filing time, for the taxation year in which the distribution took place;
3. the letter must state the following information about the original shares (i.e., the shares of Valero Energy Corporation) the shareholder owned immediately before the distribution of the spin-off shares (i.e., the shares of CST Brands, Inc.) to the shareholder:
 - a. The number of the original shares owned immediately before the distribution;
 - b. The cost amount of the original shares to the shareholder (e.g. the price the shareholder paid on acquisition of the shares) immediately before the distribution; and
 - c. The fair market value of the original shares immediately before the distribution (see below);
4. the letter must state the following information about the original shares (i.e., the shares of Valero Energy Corporation) and the spin-off shares (i.e., the shares CST Brands, Inc.) the shareholder owned immediately after the distribution of the spin-off shares to the shareholder:
 - a. The number of the original shares owned immediately after the distribution;
 - b. The fair market value of the original shares immediately after the distribution (see below);
 - c. The number of the spin-off (distributed) shares received on the distribution; and
 - d. The fair market value of the spin-off shares immediately after the distribution (see below).

A Summary of the Transaction and the Numerical Reporting Thereof

Valero Energy Corporation's 2013 spin-off transaction affecting the Canadian shareholders involved:

1. The receipt of one spin-off CST Brands, Inc. share for each nine original shares of Valero Energy Corporation (held for the shareholders by an exchange agent);
2. Fractional shares of CST Brands, Inc. were not issued. Instead, Valero Energy Corporation aggregated and sold these shares in the open market at prevailing rates and the net cash proceeds for the fractional shares were then distributed *pro rata* to each Valero Energy Corporation shareholder who was entitled to fractional shares.

The following fair market values can be assigned to the original Valero Energy Corporation shares, the spin-off (CST Brands, Inc.) shares and the new Valero Energy Corporation shares for reporting purposes:

The fair market value of the Valero Energy Corporation shares immediately before the distribution:	US \$41.46
The fair market value of the Valero Energy Corporation shares immediately after the distribution:	US \$36.60
The fair market value of the CST Brands, Inc. shares immediately after the distribution:	US \$29.60

In summary, based on the above information, the fair market value of one Valero Energy Corporation share immediately prior to the distribution was US \$41.46 and the total fair market value of the shareholder's property relating to owning each Valero Energy Corporation share immediately after the distribution was US \$36.60. This is the basis for electing a tax-deferral of any gains on the Valero Energy Corporation shares (e.g. in relation to original cost of the shares) under section 86.1 of the Act.

This means that for Canadian income tax purposes, a shareholder's existing adjusted cost base ("ACB") in a Valero Energy Corporation share would be allocated proportionately to the resulting shares. For example, a share holder who owned 100 shares of Valero Energy Corporation would have received 11 CST Brands, Inc. share (i.e., 1 CST Brands, Inc. share for every 9 shares of Valero Energy Corporation) and cash of approximately US \$3.29 in lieu of fractional shares of 0.111 (i.e., 0.111 x US \$29.60). Where the 100 Valero Energy Common Shares had an averaged ACB per share of US \$30.00, the ACB to the shareholder, immediately after the spin-off of the 100 shares of Valero Energy Corporation, 11 shares of CST Brands, Inc. and the 0.111 fractional shares would have been allocated as follows:

	Per Share	Total			
Adjusted cost base ("ACB") of Valero Energy Corporation Shares	30	3,000			
	# shares after distribution	Avg High/Low NYSE trading price on 05/02/2013	Total FMV at 05/02/2013	Percentage of FMV at 05/02/2013	Allocated ACB
Valero Energy Corporation	100	36.60	3,660.00	91.75%	2,752.50
CST Brands, Inc.	11	29.60	325.60	8.16%	244.80
Fractional shares	0.111	29.60	3.29	0.09%	2.70
			3,988.89	100.00%	3,000.00

Additional Information for Quebec Income Tax Filers

Quebec income tax filers who wish to take advantage of the section 86.1 rollover and of its equivalent for Quebec income tax purposes for the Valero Energy Corporation distribution, should enclose, in their Quebec income tax return, a copy of the section 86.1 election letter addressed to the CRA and also a separate sheet addressed to Revenue Quebec explaining that the enclosed letter to the CRA is in compliance with paragraph (f) of section 578.1 of the *Taxation Act* (Quebec) and sets out the information required by the second paragraph of section 578.3 of the *Taxation Act* (Quebec). In addition, Quebec filers should enclose a copy of the attached CRA letter which confirms the eligibility of the Valero Energy Corporation 2013 spin-off.