Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") was prepared as of August 7, 2012 and should be read in conjunction with the unaudited condensed consolidated financial statements of Gibson Energy Inc. ("Gibson" or the "Company") for the three and six months ended June 30, 2012 and 2011 and the audited consolidated financial statements and related notes for the year ended December 31, 2011 and 2010, which were prepared under International Financial Reporting Standards ("IFRS"). The unaudited condensed consolidated financial statements referred to above include all adjustments of a normal recurring nature necessary for the fair statement of the Company's financial position as of June 30, 2012, its results of operations for the three and six months ended June 30, 2012 and 2011, and its cash flows for the three and six months ended June 30, 2012 and 2011. The unaudited condensed consolidated financial statements do not include all the annual disclosures required by IFRS and should be read in conjunction with the annual audited consolidated financial statements and related notes. The results for the interim periods are not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2012. Amounts are stated in Canadian dollars unless otherwise noted.

This MD&A contains forward-looking statements and non-GAAP measures and readers are cautioned that this MD&A should be read in conjunction with the Company's disclosure under "Forward-Looking Statements" and "Non-GAAP Financial Measures" included at the end of this MD&A.

EXECUTIVE OVERVIEW

Gibson is a North American midstream energy company and is one of the largest independent midstream energy companies in Canada and a major participant in the crude oil transportation business in the United States and is engaged in the movement, storage, blending, processing, marketing, and distribution of crude oil, condensate, natural gas liquids ("NGL"), and refined products. The Company transports hydrocarbons by utilizing its integrated network of terminals, pipelines, storage tanks, and truck fleet located throughout western Canada and the United States. The Company is also involved in the processing, blending and marketing of hydrocarbons, the provision of water disposal services and oilfield waste management services 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 United States, through the Company's strategically located terminals in Hardisty and Edmonton, Alberta and injection stations in the United States, 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 United States positioning itself as a North American midstream energy company.

The Company's five integrated segments can be broken down as follows: (1) Terminals and Pipelines, (2) Truck Transportation, (3) Propane and NGL Marketing and Distribution, (4) Processing and Wellsite Fluids and (5) Marketing. The Company believes its competitive advantage is driven by its geographic presence in some of the most hydrocarbon-rich basins in the world, its footholds in strategic market hubs, its ability to capture value throughout the energy value chain, its diversified, integrated, synergistic service offerings, its proven track record of sourcing and successfully executing internal growth projects, its proven track record of sourcing, executing and successfully integrating business acquisitions, its leading health, safety, security and environmental record, its experienced management with a proven history of operations and strong industry reputation and its conservative risk management policies. The Company is continuously focused on improving its operations across all segments by utilizing the Company's integrated asset base to capture inter segment synergies and to expand the Company's network of assets, as well as increasing the Company's margins by providing additional value added services along the midstream energy chain.

Highlights

The key highlights for the three and six months ended June 30, 2012 were as follows:

- Revenue decreased by 7% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. Despite the increase in activity in the Company's segments, the decrease was due to the decline in global commodity prices. Revenue increased by 3% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to increased activity in the Company's segments and global commodity price increases;

- Segment profit increased by 34% to $64.7 million in the three months ended June 30, 2012 compared to $48.2 million in the three months ended June 30, 2011 with increases in the Company's Terminals and Pipelines, Truck Transportation, Propane and NGL Marketing and Distribution and Marketing segments. Segment profit increased by 25% to $143.1 million in the six months ended June 30, 2012 compared to $114.7 million in the six months ended June 30, 2011, with increases in the Company's Terminals and Pipelines, Truck Transportation and Marketing segments;

- Adjusted EBITDA in the three months ended June 30, 2012 increased 47% to $62.0 million compared to $42.1 million in the three months ended June 30, 2011. Adjusted EBITDA in the six months ended June 30, 2012 increased 35% to $133.8 million compared to $99.1 million in the six months ended June 30, 2011. Pro Forma Adjusted EBITDA for the twelve months ended June 30, 2012 was $270.3 million;

- Net income was $9.5 million and $49.6 million in the three and six months ended June 30, 2012, respectively compared to a net loss of $130.2 million and $90.1 million in the three and six months ended June 30, 2011, respectively. The change was due to the impact of debt extinguishment costs in the prior year periods, the increase in overall segment profit and lower interest expense;

- The Company declared a dividend of $0.25 per common share in each of the three month periods ended March 31, 2012 and June 30, 2012 for total dividends of $24.9 million in the three months ended June 30, 2012 and $49.7 million in the six months ended June 30, 2012. For the twelve months ended June 30, 2012, distributable cash flow was $165.3 million resulting in a dividend payout ratio of 60%;

- Capital expenditures, excluding acquisitions, were $87.9 million in the six months ended June 30, 2012, of which $66.0 million related to internal growth projects. The internal growth project expenditures are primarily related to the construction of tankage and pipeline connections at the Company's facilities, the expansion of the custom treating and terminals business and the growth of the Truck Transportation and Canwest fleets;

- The Company completed the acquisition of Fricken Fracken Water Hauling Ltd. ("Fricken Fracken"), effective May 1, 2012, for approximately $4.6 million, expanding its market presence in west central Saskatchewan and providing synergies with the Company's custom treating and terminals business by providing water and transportation services;

- On May 24, 2012, through an amendment of its existing credit agreement, the Company replaced its U.S.$645.0 million senior secured first lien term loan facility ("Term Loan B") with a U.S.$650.0 million senior secured first lien term loan facility ("Tranche B Term Loan") and re-priced such loan to reflect a decrease in the interest rate from LIBOR plus 4.5% to LIBOR plus 3.75% and a decrease in the LIBOR Floor from 1.25% to 1.0%. Also, the Company's U.S.$275.0 million revolving credit facility was expanded by U.S.$100.0 million to U.S.$375.0 million (the "Revolving Credit Facility");

- As of June 30, 2012, the Company has outstanding U.S. dollar denominated debt, excluding debt issuance costs, of U.S.$648.4 million, expiring on June 15, 2018 and a Revolving Credit Facility of up to U.S.$375.0 million, expiring June 15, 2016. At June 30, 2012, the Company was in compliance with all of its covenants, had unrestricted cash of $54.8 million and had $351.3 million available under the Revolving Credit Facility; and

- On March 27, 2012, the Company completed a secondary offering of common shares of the Company held by R/C Guitar Coöperatief U.A. ("Co-op"), a Dutch cooperative owned by investment funds affiliated with Riverstone Holdings LLC ("Riverstone"), pursuant to which Co-op sold 28,107,782 common shares at a price of $20.70 per common share for total gross proceeds to Co-op of $581.8 million. As a result, Co-op and Riverstone no longer own any common shares of the Company.

Effective July 24, 2012, subsequent to quarter end, the Company completed the acquisition of Mobile Propane Services Inc. ("Mobile Propane") for consideration of approximately $4.9 million plus working capital. The acquisition expands the Company's market presence in southeast Saskatchewan, provides synergies with our current businesses and provides the Company with an expanded client base.

Trends affecting the Company's business

In accordance with the Company's long-range strategic plan, the Company is continuously evaluating organic growth opportunities and potential acquisitions of transportation, retail propane distribution, gathering, terminalling or storage and other complementary midstream businesses, such as emulsion treating, water disposal and oilfield waste management services.

Some of the key industry trends that are currently affecting Gibson's business and prospects are:

- Robust activity levels are forecasted to continue in the oil producing areas in North America stemming from drilling budgets proposed by industry leaders. This may generate increased demand for the services Gibson provides;
- Increased production levels and relatively strong crude oil prices have increased demand for many facets of the midstream energy value chain including storage, transportation, distribution, processing and refining, all of which are activities in which the Company participates;
- The continued focus on the development of North American crude oil supply should result in a continuation of strong drilling activity and production levels domestically;
- Technology advancements within the drilling and fracturing process are providing production companies new opportunities to increase production levels from wells that were previously uneconomic and to bring on production from areas that were previously unable to economically produce crude oil, such as tight shale plays;
- Currently, the price of West Texas Intermediate ("WTI") crude oil is trading at a discount to Brent crude. If this trend continues, it could create incremental margin opportunities and increased opportunities for multiple areas of the Company's operations;
- The proposed Keystone XL pipeline project, if approved, would help provide a growing supply of Canadian crude oil to the largest refining markets in the United States. If approved, the pipeline would locate its initiating pump station adjacent to the Company's Hardisty Terminal that could provide increased opportunities for the Company's services;
- Enbridge's twinning of the southern section of its Athabasca pipeline should provide for additional volumes into the Hardisty area and could provide increased opportunities for the Company's services; and
- The widening of heavy to light crude oil pricing differentials should create incremental margin opportunities in multiple areas of the Company's operations. However, differentials continue to be volatile.

Longer-term outlook

The Company's longer-term outlook, spanning three to five years or more, is influenced by many factors affecting the North American midstream energy sector. Some of the more significant trends and developments relating to crude oil include:

- New technology for drilling and well completion methodology being deployed towards conventional and unconventional production within the Company's operating areas;
- Uncertainty and volatility relating to crude oil 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

- Expansion of the 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 Western Canada Sedimentary Basin ("WCSB").

The Company believes the collective impact of these trends and developments, many of which are beyond the Company's control, will result in an increasingly volatile crude oil market that is subject to more frequent short-term swings in market prices and grade differentials and shifts in market structure.

Acquisitions and internal growth projects

The following table summarizes the Company's capital expenditures for internal growth projects, acquisitions and upgrade and replacement capital (in thousands):

	Six months ended June 30,	
	2012	**2011**
Internal growth projects	$ 66,017	$ 37,418
Acquisitions	4,640	-
Upgrade and replacement capital[1]	21,856	21,617
	$ 92,513	$ 59,035

(1) Upgrade capital above includes improvement projects that extend the physical life of an asset, while replacement capital includes purchases that replace existing assets as necessary to maintain current service levels or replace assets that no longer have a useful economic life.

Total capital expenditures for internal growth projects and upgrade and replacement capital were $87.9 million and $59.0 million in the six months ended June 30, 2012 and 2011, respectively. In the six months ended June 30, 2012 and 2011, $86.9 million and $56.1 million, respectively, were included as additions to property, plant and equipment and $1.0 million and $2.9 million, respectively, were included as additions to intangible assets.

Internal growth projects

The following table summarizes the Company's capital expenditures for internal growth projects by segment (in thousands):

	Six months ended June 30,	
	2012	**2011**
Terminals and Pipelines[1]	$ 27,837	$ 22,760
Truck Transportation[2]	18,169	12,395
Propane and NGL Marketing and Distribution [3]	3,937	1,609
Processing and Wellsite Fluids[4]	15,904	609
Other	170	45
Total	$ 66,017	$ 37,418

(1) Expenditures in the six months ended June 30, 2012 relate to a number of key construction and expansion projects including the construction of four 300,000 barrel tanks at the Hardisty Terminal and expenditures in connection with expanding the Company's custom treating and terminals business.

(2) Largely represents the ongoing addition of rolling stock to meet demand growth in key market areas, with $7.8 million spent in Canada and $10.4 million in the United States in the six months ended June 30, 2012. The amount in the six months ended June 30, 2012 also includes expansion expenditures in Sexsmith, Alberta. In the year ended December 31, 2011, the Company acquired land in Sexsmith, Alberta for expansion opportunities by multiple segments.

(3) Mainly represents the ongoing addition of trucks, tanks and generators to meet growing demand in key market areas. Also, includes expansion expenditures in Sexsmith, Alberta in the six months ended June 30, 2012.

(4) Expenditures in the six months ended June 30, 2012 relate to the expansion of capacity and the building of a new tank and pipeline connections at the Moose Jaw facility and costs to construct a mud blending facility in Sexsmith, Alberta.

Acquisitions

During the six months ended June 30, 2012 and 2011, the Company completed the acquisition of Fricken Fracken for aggregate consideration of $4.6 million, effective May 1, 2012.

2012 Capital Expenditure Program

The following table is an updated summary of the 2012 Capital Expenditure Program that the Company announced on December 14, 2011:

	Updated Capital Program				Original Capital Program			
	Growth	Strategic	Upgrade and Replacement	Total	Growth	Strategic	Upgrade and Replacement	Total
	(in millions)				(in millions)			
Terminals and Pipelines	$ 72	$ -	$ 12	$ 84	$ 63	$ -	$ 13	$ 76
Truck Transportation	57	-	23	80	24	-	24	48
Propane and NGL Marketing and Distribution	10	-	6	16	5	-	5	10
Processing and Wellsite Fluids	26	-	4	30	21	-	4	25
Other Corporate	-	10	5	15	-	10	4	14
Total	$ 165	$ 10	$ 50	$ 225	$ 113	$ 10	$ 50	$ 173

For the year ended December 31, 2012, approximately $165.0 million is allocated towards internal growth projects, an increase of $52.0 million from the previously announced program. The increase in internal growth projects includes:

- Terminals and Pipelines for $11.0 million, primarily related to spend on additional connections for the Hardisty West project, the development of treating facilities, disposal wells and landfills and expansion opportunities at the Company's Hardisty and Edmonton terminals;
- Truck Transportation for $33.0 million, relating to a potential acquisition, additional rolling stock to meet anticipated growth in both Canada and the United States and the acquisition of Fricken Fracken that was effective on May 1, 2012;
- Propane and NGL Marketing and Distribution for $5.0 million that relates to the Mobile Propane acquisition that was effective on July 24, 2012; and
- Processing and Wellsite Fluids for $5.0 million, due to higher than forecasted project carryforward from 2011, additional spend on the capacity at the Moose Jaw facility and increased spend on the Sexsmith terminal which is currently under development.

Seasonality

The Company believes that seasonality does not have a material impact on its combined operations and segments. However, certain of the Company's individual segments are impacted by seasonality. Generally, the Company's second quarter results are impacted by road bans and other restrictions which impact overall activity levels in the WCSB, and therefore negatively impact the Company's trucking, propane and wellsite fluids business in Canada.

Within the Company's Processing and Wellsite Fluids segment, certain products are impacted by seasonality. Canadian road asphalt activity is affected by the impact of weather conditions on road construction. Refineries produce liquid asphalt year round, but road asphalt demand peaks during the summer months when most of the road construction activity in Canada takes place. In the off peak demand months for road asphalt, the demand for roofing flux continues. 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 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. Most of the annual segment profits are earned from October to March each year.

SEGMENTED RESULTS OF OPERATIONS

The Company's senior management evaluates segment performance based on a variety of measures depending on the particular segment being evaluated, including profit, volumes, operating expenses, profit per barrel and upgrade and replacement capital requirements. The Company defines segment profit as revenues less cost of sales and operating expenses. Revenues presented by segment in the table below include inter-segment revenue, as this is considered more indicative of the level of each segment's activity. Profit by segments excludes depreciation, amortization, accretion, impairment charges, stock based compensation and corporate expenses, as senior management looks at each period's earnings before corporate expenses and non-cash items such as depreciation, amortization and stock based compensation, as one of the Company's important measures of segment performance. The Company has also excluded the gain on the sale of the Company's Edmonton North Terminal from segment profit since it is considered to be a non-recurring gain. The Edmonton North Terminal was part of the Company's Marketing segment.

The following is a discussion of the Company's segmented results of operations for the three and six months ended June 30, 2012 and 2011 and the following table sets forth revenue and profit by segment for those periods:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Segment revenue				
Terminals and Pipelines (1)	$ 34,132	$ 240,417	$ 72,460	$ 463,242
Truck Transportation	128,233	106,393	256,942	214,011
Propane and NGL Marketing and Distribution	178,037	206,632	464,241	472,424
Processing and Wellsite Fluids	105,812	111,350	249,368	230,709
Marketing	868,568	949,700	1,785,795	1,765,480
Total segment revenue	1,314,782	1,614,492	2,828,806	3,145,866
Revenue—inter-segmental	(188,563)	(406,583)	(407,659)	(789,940)
Total revenue—external	1,126,219	1,207,909	2,421,147	2,355,926
Segment profit				
Terminals and Pipelines	19,970	17,075	43,023	33,811
Truck Transportation	20,950	13,177	40,312	29,413
Propane and NGL Marketing and Distribution	5,585	4,660	20,919	22,208
Processing and Wellsite Fluids	1,737	3,777	12,466	14,905
Marketing	16,409	9,501	26,365	14,327
Total segment profit	64,651	48,190	143,085	114,664
General and administrative	6,746	6,165	13,563	12,147
Depreciation and amortization	28,705	26,178	56,592	49,984
Stock based compensation	1,050	4,517	1,902	5,138
Debt extinguishment costs	-	166,056	-	166,056
Foreign exchange loss (gain)	8,386	4,564	(7,002)	(11,881)
Gain on sale of Edmonton North Terminal	-	-	-	(20,370)
Net interest expense	10,656	21,457	21,794	45,880
Financial instruments relating to interest expense	(1,836)	(292)	(5,859)	(68)
Income (loss) before income tax	10,944	(180,455)	62,095	(132,222)
Income tax expense (recovery)	1,423	(50,217)	12,537	(42,115)
Net income (loss)	$ 9,521	$ (130,238)	$ 49,558	$ (90,107)

(1) As a result of the change in the fee arrangement, revenue for the Terminals and Pipelines segment will decline in fiscal 2012 compared to fiscal 2011, but the new arrangement will not impact the comparability of segment profit.

The exclusion of depreciation and amortization expense could be viewed as limiting the usefulness of segment profit as a performance measure because it does not take into account in current periods the implied reduction in value of the Company's capital assets (such as rolling stock, crude oil pipelines and facilities) caused by aging and wear and tear. Repair and maintenance expenditures that do not extend the useful life, improve the efficiency or expand the operating capacity of the asset are charged to operating expense as incurred.

The Company's segment analysis involves an element of judgment relating to the allocations between segments. Inter-segment sales, cost of sales and operating expenses are eliminated on consolidation. Transactions between segments and within segments are valued at prevailing market rates. The Company believes that the estimates with respect to these allocations and rates are reasonable.

Terminals and Pipelines

The following tables set forth the operating results from the Company's Terminals and Pipelines segment:

	Three months ended June 30,		Six months ended June 30,	
Volumes (barrels in thousands)	**2012**	**2011**	**2012**	**2011**
Terminals				
Hardisty Terminal	31,857	19,712	62,791	40,983
Edmonton Terminal	5,948	3,377	12,081	7,157
Injection stations	10,427	7,985	20,979	16,166
Total terminals	48,232	31,074	95,851	64,306
Pipelines				
Bellshill pipeline	484	501	965	952
Provost pipeline	1,611	1,648	3,335	3,394
Total pipelines	2,095	2,149	4,300	4,346
Total terminals and pipelines	50,327	33,223	100,151	68,652
Custom treating and terminals	1,319	2,191	3,205	4,520

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
		(in thousands)		
Revenues	$ 34,132	$ 240,417	$ 72,460	$ 463,242
Cost of sales	918	216,277	3,086	415,850
	33,214	24,140	69,374	47,392
Operating expenses and other	13,244	7,065	26,351	13,581
Segment profit	$ 19,970	$ 17,075	$ 43,023	$ 33,811

Three months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Custom treating and terminals volumes decreased by 40% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The decrease was largely due to a revised agreement with the Marketing segment whereby at the beginning of the current year, Marketing contracted volumes on a fixed fee basis as opposed to purchasing product from the custom terminal facilities. The revised agreement does not impact the comparability of segment profit from prior periods. Volumes in the three months ended June 30, 2011 largely related to product sold to the Marketing segment. The volumes in the three months ended June 30, 2012 largely relate to the custom treating and terminals business which did not exist in the three months ended June 30, 2011, as they largely relate to the acquisition of Palko Environmental Ltd. ("Palko") completed on December 8, 2011. As a result of the change in the arrangement with the Marketing segment and the changes in volume, custom treating and terminals revenue decreased by $214.2 million in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, which also resulted in the decrease in custom treating and terminals cost of sales of $215.9 million.

Hardisty Terminal volumes increased by 62% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, as a result of increased throughput volumes from customers with dedicated tank usage and the impact of additional pipeline connections at the terminal including the Enbridge Line 4 and the Cold Lake pipeline connections. Revenue at the Hardisty Terminal increased by $6.6 million in the three months ended June 30, 2012 compared to the three months ended

June 30, 2011. The increase in revenue was due mainly to the increase in volume but was also due to the additional revenue from customers with dedicated tank usage that are subject to minimum volume charges.

Edmonton Terminal volumes increased by 76% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 mainly due to increased throughput volumes from the Southern Lights connection that was completed in the fourth quarter of 2011 and also due to an increase in diesel shipments through the terminal from a customer that is subject to minimum volume charges. As a result, revenues at the Edmonton Terminal increased by $0.6 million in the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Injection station volumes increased by 31% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to an increase in activity with a major customer as a result of an overall increase in activity in the United States. As a result, revenue increased by $0.6 million in the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Volumes for the Company's Bellshill pipeline decreased 3% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to a slight decrease in receipts from oil production batteries that produce into the pipeline. Revenue increased by $0.1 million in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 as a result of an increase in tariffs offset in part by the decrease in volumes.

Volumes for the Company's Provost pipeline decreased by 2% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to a slight decrease in receipts from oil production batteries that produce into the pipeline. However, tariff increases led to revenue increasing by $0.1 million in the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Operating expenses and other. Overall operating expenses and other costs increased by $6.2 million, or 87%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The increase was largely related to the additional operating costs from the custom treating and terminals business, largely as a result of the Palko acquisition.

Segment profit. Overall, segment profit in the three months ended June 30, 2012 increased by $2.9 million, or 17%, compared to the three months ended June 30, 2011. The primary reason for the increase was due to increased volumes through both of the Company's terminals offset in part by lower custom treating and terminals profits. The reduction in custom treating and terminals profits was due to increased profits generated in the prior year period from widening pricing differentials between crude types compared to the fixed fee earned in the current year period.

Six months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Custom treating and terminals volumes decreased by 29% in the six months ended June 30, 2012, compared to the six months ended June 30, 2011. The decrease was largely due to a revised agreement with the Marketing segment whereby at the beginning of the current year, Marketing contracted volumes on a fixed fee basis as opposed to purchasing product from the custom terminal facilities. The revised agreement does not impact the comparability of segment profit from prior periods. Volumes in the six months ended June 30, 2011 largely related to product sold to the Marketing segment. The volumes in the six months ended June 30, 2012 largely relate to the custom treating and terminals business which did not exist in the six months ended June 30, 2011, as they largely relate to the acquisition of Palko completed on December 8, 2011. As a result of the change in the arrangement with the Marketing segment and the changes in volume, custom treating and terminals revenue decreased by $405.7 million in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, which also resulted in the decrease in custom treating and terminals cost of sales of $415.3 million.

Hardisty Terminal volumes increased by 53% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, as a result of increased throughput volumes from customers with dedicated tank usage and the impact of additional pipeline connections at the terminal including the Enbridge Line 4 and the Cold Lake pipeline connections. Revenue at the Hardisty Terminal increased by $11.1 million in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The increase in revenue was due mainly to the increase in volume but was also due to the additional revenue from customers with dedicated tank usage that are subject to minimum volume charges.

Edmonton Terminal volumes increased by 69% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 mainly due to increased throughput volumes from the Southern Lights connection that was completed in the fourth quarter of 2011 and also due to an increase in diesel shipments through the terminal from a customer that is subject to minimum volume charges. As a result, revenues at the Edmonton Terminal increased by $1.8 million in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Injection station volumes increased by 30% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to an increase in activity with a major customer as a result of an overall increase in activity in the United States. As a result, revenue increased by $1.4 million in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Volumes for the Company's Bellshill pipeline increased 1% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to a slight increase in receipts from oil production batteries that produce into the pipeline. Revenue increased by $0.2 million in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 as a result of the increase in volumes and also an increase in tariffs.

Volumes for the Company's Provost pipeline decreased by 2% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to a slight decrease in receipts from oil production batteries that produce into the pipeline. However, tariff increases led to revenue increasing by $0.4 million in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Operating expenses and other. Overall operating expenses and other costs increased by $12.8 million, or 94%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The increase was largely related to the additional operating costs from the custom treating and terminals business, largely as a result of the Palko acquisition. The increase was also due to the movement in the fair value of the electricity swap whereby a loss of $40,000 was recorded in the six months ended June 30, 2012 compared to a gain of $1.1 million in the six months ended June 30, 2011.

Segment profit. Overall, segment profit in the six months ended June 30, 2012 increased by $9.2 million, or 27%, compared to the six months ended June 30, 2011. The primary reason for the increase was due to increased volumes through both of the Company's major terminals offset in part by lower custom treating and terminals profits. The reduction in custom treating and terminals profits was due to increased profits generated in the prior year period from widening pricing differentials between crude types compared to the fixed fee earned in the current year period. Offsetting this decrease in custom treating and terminals was the incremental profit from the Palko acquisition.

Truck Transportation

The following tables set forth the operating results from the Company's Truck Transportation segment:

	Three months ended June 30,		Six months ended June 30,	
Volumes (barrels in thousands)	**2012**	**2011**	**2012**	**2011**
Barrels hauled	37,112	34,332	75,615	70,051

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
		(in thousands)		
Revenues	$ 128,233	$ 106,393	$ 256,942	$ 214,011
Cost of sales	87,295	75,644	176,438	151,069
	40,938	30,749	80,504	62,942
Operating expenses and other	19,988	17,572	40,192	33,529
Segment profit	$ 20,950	$ 13,177	$ 40,312	$ 29,413

Three months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. For the three months ended June 30, 2012, barrels hauled increased by 8% compared to the three months ended June 30, 2011, due mainly to increased activity in crude hauling in both Canada and the United States and increased capacity as a result of the Company investment in rolling stock to meet demand.

Revenues increased by 21% in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. The increase was driven by the increase in volumes and also due to an increase in hauling rates and accessorial charges.

Cost of sales is primarily comprised of payments to owner-operators and lease operators. Cost of sales increased by 15% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The increase was driven by the increase in volumes with a lower percentage increase than revenue as a result of strong market demand in certain area's allowing for higher margins and also due to the impact of increased accessorial charges.

Operating expenses and other. Overall operating expenses and other costs increased by $2.4 million, or 14%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, mainly due to increased payroll related costs in both Canada and the United States.

Segment profit. Segment profit increased by $7.8 million, or 59%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, with the increase largely driven by the increase in volumes and also due to increases in hauling rates and accessorial charges.

Six months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. For the six months ended June 30, 2012, barrels hauled increased by 8% compared to the six months ended June 30, 2011, due mainly to increased activity in crude hauling in both Canada and the United States and increased capacity as a result of the Company investment in rolling stock to meet demand.

Revenues increased by 20% in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011. The increase was driven by the increase in volumes and also due to an increase in hauling rates and accessorial charges.

Cost of sales is primarily comprised of payments to owner-operators and lease operators. Cost of sales increased by 17% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The increase was driven by the increase in volumes with a lower percentage increase than revenue as a result of strong market demand in certain area's allowing for higher margins and also due to the impact of increased accessorial charges.

Operating expenses and other. Overall operating expenses and other costs increased by $6.7 million, or 20%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, mainly due to increased payroll related costs in both Canada and the United States.

Segment profit. Segment profit increased by $10.9 million, or 37%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, with such increase largely driven by the increase in volumes and also due to increases in hauling rates and accessorial charges.

Propane and NGL Marketing and Distribution

The following tables set forth operating results from the Company's Propane and NGL Marketing and Distribution segment:

Volumes	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales volumes—retail (litres in thousands)				
Residential	2,723	2,630	9,603	10,870
Oil and gas	37,677	33,676	92,914	85,069
Commercial and industrial	9,985	9,541	33,794	37,992
Automotive	6,112	7,291	10,419	12,049
Other	4,280	4,084	9,322	9,465
	60,777	57,222	156,052	155,445
Sales volumes—wholesale (barrels in thousands)				
Propane	581	774	2,183	2,294
Other NGLs				
Butane	482	333	948	898
Condensate	228	365	389	615
U.S. division	970	868	1,921	1,454
	1,680	1,566	3,258	2,967

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	(in thousands)			
Revenues				
Retail				
Propane	$ 23,206	$ 29,396	$ 71,599	$ 82,523
Other	3,900	2,947	9,107	7,594
Total retail	27,106	32,343	80,706	90,117
Wholesale				
Propane	19,549	49,358	100,722	148,483
Other NGLs	131,382	124,931	282,813	233,824
Total wholesale	150,931	174,289	383,535	382,307
Total revenues	178,037	206,632	464,241	472,424
Cost of sales				
Retail				
Propane	13,041	21,247	42,083	58,938
Other	624	485	1,178	993
Total retail	13,665	21,732	43,981	59,931
Wholesale				
Propane	18,422	46,866	96,531	140,784
Other NGLs	128,394	122,538	277,742	226,402
Total wholesale	146,816	169,404	374,273	367,186
Total cost of sales	160,481	191,136	418,254	427,117
Gross Margin				
Retail	13,441	10,611	36,725	30,186
Wholesale	4,115	4,885	9,262	15,121
Total gross margin	17,556	15,496	45,987	45,307
Operating expenses and other	11,971	10,836	25,068	23,099
Segment profit	$ 5,585	$ 4,660	$ 20,919	$ 22,208

Three months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Retail volumes increased 6% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, largely as a result of increased volumes in the oil and gas, residential and the commercial and industrial markets. The increase in the oil and gas market was due to continued strong drilling activity in the three months ended June 30, 2012. The increase in the residential market was largely due to timing of customer fills. The increase in the commercial and industrial markets was primarily due to increased construction activity. Offsetting these was a decline in the automotive market, where declines have been occurring for several years as propane is not the preferred fuel choice. Retail propane revenues decreased 21% in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, as a result of lower rack prices offset in part by higher sales volumes.

Other retail revenue relates to equipment sales, service labour and rental and delivery charges. Other rental revenue increased by 32% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, due to an increase in equipment sales and also equipment rentals, as the Company has increased its generator rental operations.

Wholesale propane volumes decreased by 25% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The decrease in volumes was largely driven by the impact of the warmer weather reducing propane demand in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. This decrease in volumes was offset in part by an increase in propane buy/sell transactions in the three months ended June 30, 2012. Revenues decreased by 60% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to lower volumes, lower wholesale propane rack prices and the impact of buy/sell transactions where revenues associated with these volumes are recorded on a net basis.

Other NGLs volumes increased by 7% in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, primarily as a result of increased butane volumes and an increase in volumes in the United States offset, in part, by lower volumes of condensate demand from internal and external customers as unfavorable pricing impacted blending programs. As a result, other NGLs revenues increased by 5% in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, with the impact of increased volumes offset by a decrease in commodity prices.

Cost of sales per litre in retail propane and wholesale propane decreased by 42% and 48%, respectively, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to prices declining from lower overall demand that has resulted in high propane inventories in the market. As a result, retail propane margin per litre benefitted from lower wholesale propane prices and increased 17% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. However, the wholesale propane margin per litre was negatively impacted by lower wholesale propane prices and decreased 66% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Cost of sales for other NGLs increased by 5% in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, with the impact of increased volumes offset by a decrease in commodity prices.

Operating expenses and other. Overall operating expenses and other costs increased by $1.1 million, or 10%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, primarily due to an increase in payroll related costs in both retail and wholesale.

Segment profit. The Propane and NGL Marketing and Distribution segment profit increased in the three months ended June 30, 2012 by $0.9 million, or 20%, compared to the three months ended June 30, 2011, primarily as a result of the increase in retail propane margin and other retail revenue offset in part by lower margins in wholesale propane and other NGLs.

Six months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Retail volumes remained relatively stable in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. However, there was an increase in volumes in the oil and gas market as a result of continued strong drilling activity in the six months ended June 30, 2012. Offsetting this increase was a decrease in other markets such as the commercial and industrial and residential markets which showed lower volumes primarily due to warmer weather conditions in the first quarter of 2012 in the Company's key markets. There was also a decline in the automotive market, where declines have been occurring for several years as propane is not the preferred fuel choice. Retail propane revenues decreased 13% in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, as a result of lower rack prices.

Other retail revenue relates to equipment sales, service labour and rental and delivery charges. Other rental revenue increased by 20% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, due to an increase in equipment sales and also equipment rentals, as the Company has increased its generator rental operations.

Wholesale propane volumes decreased by 5% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The decrease in volumes was largely driven by the impact of the warmer weather reducing propane demand offset by an increase in volumes from propane buy/sell transactions in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Revenues decreased by 32% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to lower volumes, lower wholesale propane rack prices and the impact of buy/sell transactions where revenues associated with these volumes are recorded on a net basis.

Other NGLs volumes increased by 10% in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, primarily as a result of increased volumes in the United States and increased butane volumes offset in part by lower volumes of condensate demand from internal and external customers as unfavorable pricing impacted blending programs. Other NGLs revenues increased by 21% due to the impact of increased volumes and also due to the impact of higher commodity prices particularly in the first quarter of 2012 compared to the first quarter of 2011.

Cost of sales per litre in retail propane and wholesale propane both decreased by 28% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to prices declining due to lower overall demand as that has resulted in high propane inventories in the market. As a result, retail propane margin per litre benefitted from lower wholesale propane prices and increased 22% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. However, the wholesale propane margin per litre was negatively impacted by lower wholesale propane prices and decreased 53% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Cost of sales for other NGLs increased by 23% in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, with the increase driven by the increase in volumes and commodity prices.

Operating expenses and other. Overall operating expenses and other costs increased by $2.0 million, or 9%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, primarily due to an increase in payroll related costs in both retail and wholesale.

Segment profit. The Propane and NGL Marketing and Distribution segment profit decreased in the six months ended June 30, 2012 by $1.3 million, or 6%, compared to the six months ended June 30, 2011, primarily as a result of lower margins in wholesale propane and other NGLs, offset in part by the increase in retail propane margin and other retail revenue.

Processing and Wellsite Fluids

The following tables set forth operating results from the Company's Processing and Wellsite Fluids segment:

	Three months ended June 30,		Six months ended June 30,	
Volumes (barrels in thousands)	**2012**	**2011**	**2012**	**2011**
Roofing flux	432	383	928	779
Road asphalt	105	161	105	161
Frac fluid	16	48	203	211
Tops	388	317	781	723
Distillate	86	130	268	354
Other	12	15	27	36
Total sales volumes	1,039	1,054	2,312	2,264

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
		(in thousands)		
Revenues				
Road asphalt and roofing flux	$ 57,635	$ 52,756	$ 108,966	$ 85,843
Frac fluid	2,157	6,774	29,300	26,637
Tops	31,484	31,643	66,106	67,214
Distillate	12,544	18,219	40,614	46,825
Other	1,992	1,958	4,382	4,190
Total revenues	105,812	111,350	249,368	230,709
Cost of sales	97,083	101,017	225,791	205,479
Operating expenses and other	6,992	6,556	11,111	10,325
Segment profit	$ 1,737	$ 3,777	$ 12,466	$ 14,905

Three months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Sales volumes for roofing flux increased by 13% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 as a result of increased demand in the United States and also due to the impact of the Company introducing a straight run roofing flux product into the market in 2011. Sales volumes for road asphalt decreased by 35% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The decrease was due to an increase in the amount of asphalt being sold as roofing flux due to improved roofing flux margins and also due to lower Canadian road paving jobs. Asphalt revenue increased by 9% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due mainly to the increase in roofing flux volume offset in part by lower road asphalt volumes.

Frac fluid volumes decreased 67% in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 largely due to the impact of wet weather on drilling activity. Frac fluid revenues were 68% lower in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, due to the decrease in volume.

Tops volumes increased 22% in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 due to a decrease in frac fluid and distillate volumes resulting in the Company selling more of the light end volume as tops. Tops revenues were 1% lower in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. Despite the increase in volumes, revenue declined due to lower commodity prices in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011.

Sales volumes for distillate were 34% lower in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 largely due to the impact of wet weather on drilling activity. As a result of the lower volumes, distillate revenues were 31% lower in the three months ended June 30, 2012, compared to the three months ended June 30, 2011.

The overall cost per barrel for the basket of products sold by the Processing and Wellsite Fluids segment decreased by 3% due to the decrease in crude prices.

Overall margins decreased by $1.6 million, or 16%, in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. Overall margins declined due to lower volumes of distillate and frac fluids. In addition, margins for tops declined due to wider differentials in the three months ended June 30, 2011 increasing margins for tops. Offsetting these decreases, asphalt margins were positively impacted by higher product margins for the Company's straight run roofing flux

Operating expenses and other. Operating expenses increased by $0.4 million, or 7%, in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, primarily due to an increase in payroll related cost.

Segment profit. The Processing and Wellsite Fluids segment profit decreased in the three months ended June 30, 2012 by $2.0 million, or 54%, as compared to the three months ended June 30, 2011, primarily due to lower overall margins for tops due to significant benefits in the three months ended June 30, 2011 from pricing movements. In addition, margins for frac fluids and distillate declined and operating expenses increased, offset in part by increased margins for asphalt.

Six months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Sales volumes for roofing flux increased by 19% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 as a result of increased demand in the United States and also due to the impact of the Company introducing a straight run roofing flux product into the market in 2011. Sales volumes for road asphalt decreased by 35% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The decrease was due to an increase in the amount of asphalt being sold as roofing flux due to improved roofing flux margins and also due to lower Canadian road paving jobs. Asphalt revenue increased by 27% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to an increase in both roofing flux volume and pricing.

Frac fluid volumes decreased 4% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 largely due to the impact of wet weather on drilling activity. Despite the volume decrease, frac fluid revenues were 10% higher in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, due to higher overall selling prices in the market.

Tops volumes increased 8% in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 due a decrease in frac fluid and distillate volumes resulting in the Company selling more of the light end volume as tops. Tops revenues were 2% lower in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Despite the increase in volumes, revenue declined due to lower commodity prices in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

Sales volumes for distillate were 24% lower in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 largely due to the impact on drilling activity of an early spring break up and wet weather. Distillate revenues were 13% lower in the six months ended June 30, 2012, compared to the six months ended June 30, 2011 which was driven by the decrease in volumes offset in part by higher overall selling prices in the market.

The overall cost per barrel for the basket of products sold by the Processing and Wellsite Fluids segment increased by 8% due to the increase in crude prices, particularly in the first quarter of the current year period.

Overall margins decreased by $1.7 million, or 7%, in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011. Overall margins declined due to lower volumes of distillate and frac fluids. In addition, margins for tops declined due to wider differentials in the three months ended June 30, 2011 increasing margins for tops. Offsetting these decreases, asphalt margins were positively impacted by higher product margins for the Company's straight run roofing flux.

Operating expenses and other. Operating expenses increased by $0.8 million, or 8%, in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, primarily due to an increase in payroll related cost.

Segment profit. The Processing and Wellsite Fluids segment profit decreased in the six months ended June 30, 2012 by $2.4 million, or 16%, as compared to the six months ended June 30, 2011, primarily due to lower overall margins for tops, frac fluids and distillate and higher operating expenses, offset in part by increased margins for roofing flux asphalt.

Marketing

The following tables set forth the operating results from the Company's Marketing segment:

Volumes (barrels in thousands)	Three months ended June 30,		Six months ended June 30,	
			2012	2011
Sales Volumes				
Crude and diluent	19,478	12,410	37,459	25,350

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Revenues	$ 868,568	$ 949,700	$ 1,785,795	$ 1,765,480
Cost of sales	849,662	938,444	1,754,513	1,746,217
Operating expenses and other	2,497	1,755	4,917	4,936
Segment profit	$ 16,409	$ 9,501	$ 26,365	$ 14,327

The following tables set forth the monthly average NYMEX benchmark price of crude oil:

Calendar Period	2012	2011
January	$ 100.32	$ 89.58
February	$ 102.26	$ 89.74
March	$ 106.21	$ 102.98
April	$ 103.35	$ 110.04
May	$ 94.72	$ 101.36
June	$ 82.41	$ 96.29

Three months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Sales volumes for crude and diluent increased by 57% in the three months ended June 30, 2012, due to a continued focus on bringing volumes to the Company's integrated assets and the impact of new pipeline connections at the Company's terminals. However, revenue decreased by 9% with the increase in volume being offset by lower commodity prices and the impact of an increase in buy/sell transactions whereby revenues associated with these volumes are recorded on a net basis.

Cost of sales in the three months ended June 30, 2012 was 9% lower compared to the three months ended June 30, 2011. This was mainly attributable to the decrease in commodity prices offset by the increase in volumes.

Operating expenses and other. Operating expenses increased by $0.7 million, or 42%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 primarily due to the impact of increased costs from the re-alignment of the custom terminals business from the Terminals and Pipelines segment at the beginning of the current year.

Segment profit. The Marketing segment profit increased by $6.9 million, or 73%, in the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. In the three months ended June 30, 2012 margins were positively impacted by the increase in volumes and favourable pricing differentials between crude oil types, which is generally beneficial for segment profitability, as compared to the three months ended June 30, 2011.

Six months ended June 30, 2012 and 2011.

Volumes, revenues and cost of sales. Sales volumes for crude and diluent increased by 48% in the six months ended June 30, 2012, due to a continued focus on bringing volumes to the Company's integrated assets and the impact of new pipeline connections at the Company's terminals. Revenue increased by 1% due to the increase in volume offset in part by lower commodity prices and by the impact of an increase in buy/sell transactions whereby revenues associated with these volumes are recorded on a net basis.

Cost of sales in the six months ended June 30, 2012 remained relatively stable in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 which is largely in line with the movement in revenue.

Operating expenses and other. Operating expenses increased by $0.5 million, or 11%, in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due the impact of increased costs from the re-alignment of the custom terminals business from the Terminals and Pipelines segment at the beginning of the current year offset in part by a decrease in customer bad debt expense.

Segment profit. The Marketing segment profit increased by $12.0 million, or 84%, in the six months ended June 30, 2012 as compared to the six months ended June 30, 2011. In the six months ended June 30, 2012, margins were positively impacted by the increase in volumes and favourable pricing differentials between crude oil types, which is generally beneficial for segment profitability, as compared to the six months ended June 30, 2011.

General and administrative, excluding depreciation and amortization

General and administrative expense ("G&A") was $6.7 million and $13.6 million in the three and six months ended June 30, 2012, respectively, compared to $6.2 million and $12.1 million in the three and six months ended June 30, 2011, respectively. The increase was largely driven by an increase in payroll related costs.

Depreciation and amortization

Depreciation and amortization expense was $28.7 million and $56.6 million in the three and six months ended June 30, 2012, respectively, compared to $26.2 million and $50.0 million in the three and six months ended June 30, 2011, respectively. The increase is due to the additional depreciation and amortization related to increased asset values as a result of the Company's capital expenditures and acquisitions.

Stock based compensation

Stock based compensation expense was $1.1 million and $1.9 million in the three and six months ended June 30, 2012, respectively, compared to $4.5 million and $5.1 million in the three and six months ended June 30, 2011, respectively. The decrease in expense in the three and six months ended June 30, 2012 was primarily due to the additional expense incurred from the granting of stock awards in June 2011 that vested upon completion of the Company's initial public offering on June 15, 2011 (the "Offering") and the impact of performance awards that vested in the three months ended June 30, 2011.

Debt extinguishment costs

In the three months ended June 30, 2011, the Company recorded debt extinguishment costs of $166.1 million as a result of the refinancing of the Company's long-term debt on June 15, 2011 (the "Refinancing"). The amount largely relates to the repurchase bonus of $128.1 million that was incurred in connection with the tender and discharge of the debt, the write-off of the Company's unamortized deferred debt issue costs from the repayment of the debt and the unamortized prepaid financing costs on the replacement of the Company's revolving credit facilities totaling $37.3 million. In addition, the expense includes professional fees incurred in the tender and discharge process.

Foreign exchange loss (gain) not affecting segment profit

In the three months ended June 30, 2012, the Company recorded a foreign exchange loss of $8.4 million compared to $4.6 million in the three months ended June 30, 2011. In the six months ended June 30, 2012, the Company recorded a foreign exchange gain of $7.0 million compared to $11.9 million the six months ended June 30, 2011. The gains and losses recorded are primarily as a result of the impact of the movement in exchange rates on the Company's U.S. dollar denominated long-term debt and related financial instruments. In the three and six months ended June 30, 2012, a loss of $12.9 million and $1.3 million, respectively, was due to the unfavorable movement in exchange rates that was offset by an unrealized gain of $2.4 million and $7.2 million, respectively, related to the Company entering into U.S. dollar forward contracts and call options to mitigate the currency risk associated with its U.S. dollar denominated long-term debt. Included in the unrealized gain is an unrealized loss of $3.5 million and an unrealized gain of $4.3 million in the three and six months ended June 30, 2012, respectively, related to the Company's U.S. dollar forward call options. In the three and six months ended June 30, 2011, a gain of $4.2 million and $21.5 million, respectively, was due to the favorable movement in exchange rates that was offset by an unrealized loss of $9.4 million in both periods related to the Company entering into U.S. dollar forward contracts to mitigate the currency risk associated with its U.S. dollar denominated long-term debt.

Gain on sale of Edmonton North Terminal

On January 7, 2011, the Company completed the disposition of its Edmonton North Terminal for consideration of $54.3 million, realizing a gain on the sale of $20.4 million in the three and six months ended June 30, 2011.

Net interest expense

Net interest expense, excluding the non-cash movement in financial instruments relating to interest expense, was $10.7 million and $21.8 million in the three and six months ended June 30, 2012, respectively, compared to $21.5 million and $45.9 million in the three and six months ended June 30, 2011, respectively. The decrease is primarily due to the lower interest rate and principal balance on the Company's long-term debt as a result of the Refinancing.

Financial instruments relating to interest expense

In the three and six months ended June 30, 2012, the Company recorded a non-cash gain of $1.8 million and $5.9 million, respectively, relating to financial instruments with respect to the Company's interest expense. The gain largely relates to an embedded derivative on an interest rate floor within the Company's loan facility that is required to be separated from the carrying value of long-term debt and accounted for as a separate financial instrument that is measured at fair value at each balance sheet date. In the three and six months ended June 30, 2011, the gain of $0.3 million and $0.1 million, respectively, relates to a forward contract entered into to mitigate currency exposure on U.S. dollar interest payments.

Income tax expense

Income tax expense in the three and six months ended June 30, 2012 was $1.4 million and $12.5 million, respectively, compared to a recovery of $50.2 million and $42.1 million in the three and six months ended June 30, 2011, respectively. The effective tax rate was 13.0% and 20.2% during the three and six months ended June 30, 2012, respectively, compared to a rate of 27.8% and 31.9% in the three and six months ended June 30, 2011, respectively. The Company incurred income tax expense in the three and six months ended June 30, 2012 compared to a recovery in the three and six months ended June 30, 2011 due to net income before tax in the current year periods compared to net loss before tax in the prior year periods. The main reason for the decrease in the effective rate in the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011 was the impact of a realized capital loss related to foreign exchange losses on the replacement and re-pricing of the Company's long-term debt. In addition, the effective tax rate decrease in the six months ended June 30, 2012 was also impacted by the non-taxable benefit of the Edmonton North Terminal gain on the income tax recovery in the six months ended June 30, 2011.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth a summary of the Company's quarterly results for each of the last eight quarters:

	2012		2011				2010	
			Three months ended					
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
	(in thousands)							
Revenues	$1,126,219	$1,294,928	$1,480,784	$1,235,321	$1,207,909	$1,148,017	$ 992,090	$ 884,968
Net income (loss)	9,521	40,037	32,623	(5,121)	(130,238)	40,131	31,396	10,737
EBITDA(1)	48,565	86,251	77,263	46,030	(133,012)	96,744	84,497	59,991
Adjusted EBITDA(2)	62,047	71,789	67,345	64,852	42,147	56,939	56,688	42,769
Earnings (loss) per share								
Basic	0.10	0.41	0.34	(0.05)	(1.98)	0.58	0.45	0.12
Diluted	0.09	0.40	0.33	(0.05)	(1.98)	0.51	0.41	0.12

(1) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA consists of net income (loss) before interest expense, income taxes, depreciation, and amortization.

(2) Adjusted EBITDA is defined as consolidated net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of goodwill and intangible assets, and non-cash inventory or asset writedowns. It also takes into account the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, management fees, debt extinguishment costs and other adjustments that are considered non-recurring in nature.

The Company presents EBITDA because it considers it to be an important supplemental measure of the Company's performance and believes this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. EBITDA has limitations as an analytical tool, and readers should not consider this item in isolation, or as a substitute for an analysis of the Company's results as reported under IFRS. Some of these limitations are:

- EBITDA:
  - excludes certain income tax payments that may represent a reduction in cash available to the Company;
  - does not reflect the Company's cash expenditures, or future requirements, for capital expenditures or contractual commitments;
  - does not reflect the impact of the movement in exchange rates on the Company's long-term debt;
  - does not reflect changes in, or cash requirements for, the Company's working capital needs; and
  - does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on the Company's debt, including the Tranche B Term Loan and Revolving Credit Facility;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate EBITDA differently than the Company does, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of the Company's business. The Company compensates for these limitations by relying primarily on the Company's IFRS results and using EBITDA only supplementally. The following table reconciles consolidated net income (loss) to EBITDA:

	2012		2011				2010	
	Three months ended							
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
	(in thousands)							
Net income (loss)	$ 9,521	$ 40,037	$ 32,623	$ (5,121)	$ (130,238)	$ 40,131	$ 31,396	$ 10,737
Depreciation and amortization	28,705	27,887	25,928	24,605	26,178	23,806	24,882	24,259
Interest expense[(1)]	8,916	7,213	11,646	22,897	21,265	24,705	25,555	25,241
Income tax expense (recovery)	1,423	11,114	7,066	3,649	(50,217)	8,102	2,664	(246)
EBITDA	$ 48,565	$ 86,251	$ 77,263	$ 46,030	$ (133,012)	$ 96,744	$ 84,497	$ 59,991

(1) Interest expense includes the impact of the change in net unrealized gains or losses attributable to movement in the mark-to-market valuation of financial instruments relating to interest expense.

Adjusted EBITDA and Pro Forma Adjusted EBITDA are presented in the table below because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense and foreign exchange differences on the Company's long-term debt), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property, plant and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA and Pro Forma Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. EBITDA, Adjusted EBITDA and Pro Forma Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA differs from the term EBITDA as it is commonly used. Adjusted EBITDA is defined as consolidated net income (loss) before interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial instruments, stock based compensation expense, impairment of goodwill and intangible assets, and non-cash inventory or asset writedowns. It also takes into account the impact of foreign exchange movements in the Company's U.S. dollar denominated long-term debt, management fees, debt extinguishment costs and adjustments that are considered non-recurring in nature. Pro Forma Adjusted EBITDA differs from the term Adjusted EBITDA in that it also includes the pro forma effect of acquisitions that took place in each fiscal year as if the acquisitions took place at the beginning of the fiscal year in which such acquisition occurred. Pro Forma Adjusted EBITDA is also used in calculating the Company's covenant compliance under the Tranche B Term Loan and Revolving Credit Facility.

The Company's calculation of Adjusted EBITDA and Pro Forma Adjusted EBITDA may not be comparable to such calculations used by other companies. In calculating Pro Forma Adjusted EBITDA, the Company makes certain adjustments that are based on assumptions and estimates that may prove to have been inaccurate. In addition, in evaluating Adjusted EBITDA and Pro Forma Adjusted EBITDA, readers should be aware that in the future the Company may incur expenses similar to those eliminated in the presentation herein.

The following tables reconcile EBITDA to Adjusted EBITDA and Pro Forma Adjusted EBITDA for each of the last eight quarters and for the twelve months ended June 30, 2012 and 2011:

	Three months ended				Twelve months ended
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2012
			(in thousands)		
EBITDA	$ 48,565	$ 86,251	$ 77,263	$ 46,030	$ 258,109
Unrealized foreign exchange loss (gain) on long-term debt[(a)]	12,862	(11,577)	(14,198)	48,488	35,575
Net unrealized loss (gain) from financial instruments[(b)]	(472)	(3,737)	18,576	(30,637)	(16,270)
Employee stock option plan[(c)]	1,050	852	1,590	971	4,463
Acquisition related costs [(d)]	39	-	1,014	-	1,053
Gain on remeasurement of interest in equity investment [(e)]	-	-	(16,900)	-	(16,900)
Adjusted EBITDA	$ 62,044	$ 71,789	$ 67,345	$ 64,852	$ 266,030
Pro forma impact of acquisitions [(j)]					4,231
Pro Forma Adjusted EBITDA					$ 270,261

	Three months ended				Twelve months ended
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2011
			(in thousands)		
EBITDA	$ (133,012)	$ 96,744	$ 84,497	$ 59,991	$ 108,220
Unrealized foreign exchange loss (gain) on long-term debt[(a)]	(4,200)	(17,328)	(26,752)	(23,408)	(71,688)
Net unrealized loss (gain) from financial instruments[(b)]	8,536	(3,034)	(1,787)	1,639	5,354
Employee stock option plan[(c)]	4,517	621	475	1,744	7,357
Management fee[(f)]	250	306	255	260	1,071
Debt extinguishment cost [(g)]	166,056	-	-	-	166,056
Gain on sale of Edmonton North Terminal [(h)]	-	(20,370)	-	-	(20,370)
Non-recurring charges [(i)]	-	-	-	2,543	2,543
Adjusted EBITDA	$ 42,147	$ 56,939	$ 56,688	$ 42,769	$ 198,543
Pro forma impact of acquisitions [(j)]					414
Pro Forma Adjusted EBITDA					$ 198,957

(a) *Non-cash adjustment representing the unrealized foreign exchange loss (gain) on long-term debt, as a result of the movement in exchange rates in the periods.*

(b) *Reflects the exclusion of the change in net unrealized gains or losses attributable to movement in the mark-to-market valuation of financial instruments used in commodity price risk management activities. The Company uses oil and gas price futures, options and swaps to manage the exposure to oil and gas price movements and foreign currency forward contracts and options to manage foreign exchange risks, although the Company does not formally designate these financial instruments as hedges for accounting purposes. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement. Management believes that this adjustment better correlates the effect of risk management activities to the underlying operating activities to which they relate.*

(c) *Represents the non-cash stock based compensation relating to the Company's equity incentive plan.*

(d) *Represents transaction fees that were expensed in connection with acquisitions made by the Company.*

(e) *Reflects a gain on the remeasurement to fair value of the Company's 39% equity interest in Palko held prior to the acquisition.*

(f) *Reflects an adjustment for the management fee payable to Riverstone. The management fee agreement was terminated in connection with the Offering.*

(g) *In connection with the Refinancing, the Company recorded $166.1 million of debt extinguishment costs.*

(h) *Represents the non-recurring gain of $20.4 million on the sale of the Edmonton North Terminal on January 7, 2011.*

(i) *In the three months ended September 30, 2010, the charge of $2.5 million was as a result of the Company subleasing excess office space at less than the amount payable on the head lease.*

(j) *Reflects the pro forma effect of acquisitions on the Company's Pro Forma Adjusted EBITDA as if the acquisitions that took place in the twelve months occurred on July 1 of each twelve month period.*

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity and capital resource needs are to service the Company's debt, including interest payments, to finance working capital needs, to fund ongoing capital expenditures, growth opportunities and acquisitions and to fund its targeted dividend level. The Company relies on its cash flow from operations, debt financings and borrowings under the Company's Revolving Credit Facility for liquidity.

The Company's operating cash flow has historically been affected by the overall profitability of sales within the Company's segments, the Company's ability to invoice and collect from customers in a timely manner and the Company's ability to efficiently implement the Company's acquisition strategy and manage costs. The Company's cash, cash equivalents and cash flow from operations have historically been sufficient to meet the Company's working capital, capital expenditure and debt servicing requirements.

The following table summarizes the Company's sources and uses of funds for the three and six months ended June 30, 2012 and 2011:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
		(in thousands)		
Statement of Cash Flows				
Cash flows provided by (used in):				
Operating activities	$ 56,114	$ 23,532	$ 120,755	$ 87,103
Investing activities	(43,865)	(34,331)	(78,520)	1,775
Financing activities	(32,428)	35,557	(52,631)	(18,769)

Cash provided by operating activities

The primary drivers of cash flow from operating activities are the collection of amounts related to sales of crude oil, propane, asphalt and other products and fees for services provided associated with the Company's truck transportation and terminal and pipeline services. Offsetting these collections are payments for purchases of crude oil and other products and other expenses. These other expenses primarily consist of owner-operator and lease operator payments for the provision of contract trucking services, field operating expenses and G&A expenses. Historically, the Marketing and the Processing and Wellsite Fluids segments have been the most variable with respect to generating cash flows due to the impact of crude oil price levels and the volatility that price changes and crude oil grade basis changes have on the cash flows and working capital requirements of these segments.

Cash provided by operations in the three and six months ended June 30, 2012 was $56.1 million and $120.8 million, respectively, compared to $23.5 million and $87.1 million in the three and six months ended June 30, 2011, respectively. The increase was primarily attributable to an increase in overall segment profitability in the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011. In addition, inventory decreased by $20.3 million and $56.2 million in the three and six months ended June 30, 2012, respectively, compared to a decrease in inventory of $5.8 million and $45.1 million in the three and six months ended June 30, 2011, respectively. This was offset in part by the net outflow from trade receivables and payables of $20.6 million and $63.0 million in the three and six months ended June 30, 2012, respectively, compared to an outflow of $4.4 million and $43.8 million in the three and six months ended June 30, 2011, respectively.

Cash provided by (used in) investing activities

Cash used in investing activities consists primarily of expenditures for capital projects and business acquisitions.

Cash used in investing activities was $43.9 million and $78.5 million in the three and six months ended June 30, 2012, respectively, compared to $34.3 million used in investing activities in the three months ended June 30, 2011 and $1.8 million provided by investing activities in the six months ended June 30, 2011. The change in cash used in investing activities was due largely to an increase in capital expenditures and acquisitions in the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011. For a summary of capital expenditures and acquisitions, see “Acquisitions and internal growth projects” included in this MD&A. In addition, the increase in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, was also due to the decrease in proceeds from the sale of assets of $53.0 million in the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011, which was largely due to the sale of the Company’s Edmonton North Terminal in January 2011.

Cash provided by (used in) financing activities

Cash used in financing activities was $32.4 million and $52.6 million, in the three and six months ended June 30, 2012, respectively compared to $35.6 million provided by financing activities in the three months ended June 30, 2011 and $18.8 million used in financing activities in the six months ended June 30, 2011.

On May 24, 2012, the Company replaced and re-priced its existing long-term debt resulting in the Company's existing U.S.$645.0 million Term Loan B being replaced with a U.S.$650.0 million Tranche B Term Loan. In connection with this transaction, the Company paid debt issue and related financing costs of $10.4 million.

In the three months ended June 30, 2012, the Company paid net cash dividends of $15.9 million, paid interest of $9.5 million and received proceeds of $3.2 million on the exercise of stock options. In the six months ended June 30, 2012, the Company paid net cash dividends of $27.6 million, paid interest of $21.1 million and received proceeds of $8.1 million on the exercise of stock options.

In the three and six months ended June 30, 2011, the significant financing activities related to the net proceeds from the Offering of $472.8 million and the proceeds from the Term Loan B, net of debt issue and financing costs, of $612.7 million, offset by the repayment of the Notes of $743.3 million, debt extinguishment costs of $128.5 million and the repurchase of a warrant held by Hunting Energy Holding Limited of $134.6 million. In addition, interest paid in the three and six months ended June 30, 2011 was $43.7 million and $54.6 million, respectively.

Liquidity sources, requirements and contractual cash requirements and commitments

The Company believes that cash on hand, together with cash from operations and borrowings under the Revolving Credit Facility, will be adequate to meet its working capital needs, planned capital expenditures, debt service, targeted dividend level and other cash requirements for at least the next twelve months. At June 30, 2012, the Company had unrestricted cash of $54.8 million and $351.3 million available under the Revolving Credit Facility.

The Company’s ability to make scheduled payments of principal and interest on the Company’s indebtedness, to pay targeted dividends and to fund the Company’s other liquidity requirements will depend on the Company’s ability to generate cash in the future. In the three months ended June 30, 2012, the Company declared a dividend of $0.25 per share for a total dividend of $24.9 million, of which $18.7 million was paid in cash on July 17, 2012 with the remainder of the dividend being settled with the issuance of common shares to shareholders participating in the Company’s dividend reinvestment plan (“DRIP”). The declaration of dividends is considered on a quarterly basis and is at the sole discretion of the board of directors of the Company (the “Board”) and will be determined on the basis of earnings, financial requirements for operations and a solvency calculation.

Capital expenditures, including acquisitions, amounted to $92.5 million in the six months ended June 30, 2012. At June 30, 2012, the Company has identified and approved upgrade and replacement capital and internal growth projects, including acquisitions, of $164.0 million that the Company expects to undertake over the next 12 to 24 months. While the Company anticipates that these

capital expenditures and acquisitions will occur, they are subject to general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond the Company's control.

In addition to anticipated capital expenditures, the Company may engage in additional strategic acquisitions and capital expenditures as opportunities arise that benefit the Company's existing operations by expanding the Company's reach in existing markets or by providing platforms with which to enter new markets. Any such acquisition or capital expenditure could be material and could have a material effect on the Company's liquidity, cash flows and capital commitments and resources. Any future acquisitions, capital expenditures or other similar transactions may require additional capital and there can be no assurance that such capital will be available to the Company on acceptable terms, if at all.

As of June 30, 2012, the Company had total outstanding long-term debt, excluding debt issuance costs, of U.S.$648.4 million. The Tranche B Term Loan expires on June 15, 2018, and accrues interest at the option of the Company at a rate equal to Adjusted LIBOR plus 3.75% or ABR plus 2.75%, subject to a minimum Adjusted LIBOR floor of 1.0%. The Tranche B Term Loan is repayable in equal quarterly installments of $1.6 million, with the remaining balance to be paid at the end of the term. In addition, certain events may trigger incremental repayments of principal including a percentage of annual net excess cash flow subject to certain ratios and the disposition of assets in excess of U.S.$10.0 million in any given year, where such proceeds are not reinvested into capital assets within specified time periods. Additionally, the Company has a Revolving Credit Facility of up to U.S.$375.0 million, the proceeds of which are available to provide financing for working capital and other general corporate purposes. Borrowings under the Revolving Credit Facility bear interest at a rate equal to, at the Company's option, Adjusted LIBOR plus 2.5%, Base Rate plus 1.5%, Bankers Acceptance Rate plus 2.5% or Canadian Prime Rate plus 1.5%, subject to adjustment based on a change in the Company's corporate credit rating. In addition, the Company must pay a commitment fee of 0.5%, which can decrease based on an upgrade to the Company's corporate credit rating as determined by recognized credit rating agencies, on the unused portion of the Revolving Credit Facility. At June 30, 2012, the Company did not have any amount drawn against this facility, had no unrestricted cash and had issued letters of credit totaling $30.8 million. The Tranche B Term Loan and Revolving Credit Facility are secured by substantially all of the Company's property and equipment, intangibles, equity interest and current assets, including inventory and trade receivables and are guaranteed by substantially all of the Company's existing wholly owned subsidiaries.

The terms of the Company's Tranche B Term Loan and Revolving Credit Facility requires the Company to maintain a "Senior Secured Leverage Ratio" of no greater than 5.0 to 1.0 and an "Interest Coverage Ratio" of not less than 2.5 to 1.0. The Senior Secured Leverage Ratio will become more restrictive over the term of the Tranche B Term Loan as the Senior Secured Leverage Ratio will decrease to 4.5 to 1.0 on June 15, 2013 and to 4.0 to 1.0 on June 15, 2015. As of June 30, 2012, the Company was in compliance with the financial ratios with the Senior Secured Leverage Ratio at 2.2 to 1.0 and the Interest Coverage Ratio at 8.2 to 1.0. If the Company fails to comply with the financial covenants, the lenders may declare an event of default. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the Revolving Credit Facility, and could result in an acceleration of amounts due and payable under the Tranche B Term Loan.

The Tranche B Term Loan and Revolving Credit Facility also contain non-financial covenants that restrict some of the Company's activities, including the Company's ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments and engage in specified transactions with affiliates. The Tranche B Term Loan and Revolving Credit Facility also contain customary events of default, including defaults based on events of bankruptcy and insolvency, non-payment of principal, interest or fees when due, subject to specified grace periods, breach of specified covenants, change in control and material inaccuracy of representations and warranties. As of June 30, 2012, the Company was in compliance with all of its covenants under the Tranche B Term Loan and Revolving Credit Facility.

Contingencies

The Company is currently undergoing various income tax related and excise tax audits. While the final outcome of such audits cannot be predicted with certainty, the Company believes that the resolution of these audits will not have a material impact on the Company's consolidated financial position or results of operations. As part of the acquisition of the Company by Riverstone from Hunting PLC ("Hunting") on December 12, 2008, Hunting has indemnified the Company for any income taxes as a result of these audits relating to periods prior to the acquisition date.

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to the contractual agreements and management decisions, result in the recognition of estimated asset retirement obligations and environmental remediation. Estimates of asset retirement obligation and environmental remediation costs can change significantly based on such factors as operating experience and changes in legislation and regulations.

The Company is involved in various legal actions, which have occurred in the ordinary course of business. The Company is of the opinion that losses, if any, arising from such legal actions would not have a material impact on the Company's consolidated financial position or results of operations.

Contractual obligations

The following table presents, at June 30, 2012, the Company's obligations and commitments to make future payments under contracts and contingent commitments:

	Payments due by period				
(in thousands)	Total	Remainder of the year	1-3 years	3-5 years	More than 5 years
Long-term debt[(1)]	$ 660,759	$ 3,312	$ 13,248	$ 13,248	$ 630,951
Interest payments on long-term debt[(1)(2)]	185,496	15,993	64,469	61,608	43,426
Operating lease obligations[(3)]	115,633	10,838	34,634	28,989	41,172
Total contractual obligations	$ 961,888	$ 30,143	$ 112,351	$ 103,845	$ 715,549

(1) The exchange rate used to translate the U.S. dollar obligations on the Company's long-term debt and interest payments is the rate as of June 30, 2012 of U.S.$0.9813 to $1.000.

(2) The interest rate used to calculate the Company's future interest payments is the rate as of June 30, 2012 of 4.75% and includes the impact of an interest rate swap which effectively fixes the interest rate on U.S.$175.0 million of the long-term debt at 5.5% for a three year period beginning in September 2012.

(3) Operating lease obligations relate to an office lease for the Company's Calgary head office, rail tank cars, vehicles, field buildings and computer equipment leases.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital expenses that are material to investors.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at June 30, 2012, there were 99.8 million common shares outstanding and no preferred shares outstanding. In addition, under the Company's 2011 Equity Incentive Award Plan, there were an aggregate of 1.1 million restricted share units, performance share units and deferred share units outstanding and 2.5 million stock options outstanding as at June 30, 2012.

Subsequent to June 30, 2012, 0.3 million common shares were issued to shareholders enrolled in the DRIP for consideration of $6.2 million and 0.3 million stock awards were exercised, bringing the total common shares outstanding at July 31, 2012 to 100.3 million.

TRADING PRICE AND VOLUME

After the completion of the Offering, on June 15, 2011, the common shares commenced trading on the TSX under the ticker symbol GEI. The following table sets forth the high and low sales prices per common share at the close of market, as well as total monthly trading volumes for the shares on the TSX for the periods indicated.

Calendar Period	Price Range High	Price Range Low	Volume
2011			
June (from June 15)	$ 16.05	$ 15.95	1,662,254
July	$ 17.65	$ 16.10	2,107,532
August	$ 17.58	$ 15.55	2,320,371
September	$ 18.90	$ 17.29	4,144,199
October	$ 18.96	$ 17.84	6,796,042
November	$ 20.35	$ 18.43	6,682,582
December	$ 19.33	$ 18.95	5,538,720
2012			
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 (to August 3)	$ 20.99	$ 20.90	323,906

DIVIDENDS

The Company is currently paying quarterly dividends to holders of common shares. 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 operations, the satisfaction of a solvency calculation and the terms of the Company’s credit agreement. In addition, in connection with Company’s dividend policy, after each fiscal year end the Board will formally review the annual dividend amount.

The Board has approved a DRIP that provides eligible holders of common shares with the opportunity to reinvest their cash dividends, on each dividend payment date, in additional common shares to be issued from treasury of Gibson. For the second quarter dividend of 2012, holders of approximately 24.8% of the common shares participated in the DRIP.

DISTRIBUTABLE CASH FLOW

Distributable cash flow is not a standard measure under IFRS and, therefore, may not be comparable to similar measures reported by other entities. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of seasonal fluctuations in product inventories or other temporary changes. Maintenance capital expenditures are deducted from distributable cash flow as they are ongoing recurring expenditures.

The following is a reconciliation of distributable cash flow to its most closely related IFRS measure, cash flow from operating activities.

	Twelve months ended June 30, 2012
	(in thousands)
Cash flow from operating activities	$ 240,969
Adjustments:	
Changes in non-cash working capital	15,361
Upgrade and replacement capital	(36,926)
Interest paid	(41,079)
Current income tax	(12,986)
Distributable cash flow	$ 165,339
Dividends declared to shareholders	$ 99,248

Dividends declared in the twelve months ended June 30, 2012 were $99.2 million or 60 % of the distributable cash flow generated in the twelve months ended June 30, 2012.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is involved in various commodity related marketing activities that are intended to enhance the Company's operations and increase profitability. These activities often create exposure to price risk between the time contracted volumes are purchased and sold and to foreign exchange risk when contracts are in different currencies (Canadian dollar versus U.S. dollar). The Company is also exposed to various market risks, including volatility in (i) crude oil, refined products, natural gas and NGL prices, (ii) interest rates and (iii) currency exchange rates. The Company utilizes various derivative instruments to manage commodity price and currency exchange rate exposure and, in certain circumstances, to realize incremental margin during volatile market conditions. The Company's commodity trading and risk management policies and procedures are designed to establish and manage to an approved level of Value at Risk. The Company has a Risk Management Committee that has direct responsibility and authority for the Company's risk policies and the Company's trading controls and procedures and certain aspects of corporate risk management. The Company's approved strategies are intended to mitigate risks that are inherent in the Company's core businesses of gathering and marketing and storage. To hedge the risks discussed above the Company engages in risk management activities that the Company categorizes by the risks the Company is hedging and by the physical product that is creating the risk. The following discussion addresses each category of risk.

Commodity Price Risk. The Company hedges its exposure to price fluctuations with respect to crude oil, refined products, natural gas and NGLs, and expected purchases and sales of these commodities (relating primarily to crude oil, roofing flux, propane sales and purchases of natural gasoline). The derivative instruments utilized consist primarily of futures and option contracts traded on the NYMEX, ICE and over-the-counter transactions, including swap and option contracts entered into with financial institutions and other energy companies. The Company's policy is to purchase only commodity products for which the Company physically transacts, and to structure the Company's hedging activities so that price fluctuations for those products do not materially affect the segment profit the Company receives.

Although the Company seeks to maintain a position that is substantially balanced within the Company's various commodity purchase and sales activities, the Company may experience net unbalanced positions for short periods of time as a result of production, transportation and delivery variances as well as logistical issues associated with inclement weather conditions.

Although the intent of the Company's risk management strategies is to hedge the Company's margin, the Company has not designated nor attempted to qualify for hedge accounting. Thus, changes in the fair values of all of the Company's derivatives are recognized in earnings, and result in greater potential for earnings volatility.

The fair value of futures contracts is based on quoted market prices obtained from the NYMEX or ICE. The fair value of swaps and option contracts is estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. These quotes are compared to the contract price of the swap, which approximates the gain or loss that

would have been realized if the contracts had been closed out at the period end. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. No such positions existed as at June 30, 2012 and 2011. All derivative positions offset physical exposures to the cash market. Price-risk sensitivities were calculated by assuming a 15% volatility in crude oil and NGL related prices, regardless of term or historical relationships between the contractual price of the instruments and the underlying commodity price. In the event of an increase or decrease in prices, the fair value of the Company's derivative portfolio would typically increase or decrease, offsetting changes in the Company's physical positions. A 15% favorable change would increase the Company's net income by $2.5 million and $2.8 million as of June 30, 2012 and 2011, respectively. A 15% unfavorable change would decrease the Company's net income by $2.5 million and $2.8 million as of June 30, 2012 and 2011, respectively. However, these changes may be offset by the use of one or more risk management strategies.

Electricity Price Risk. The Company has hedged its exposure to electricity price fluctuations by entering into a financial swap contract to fix the level of anticipated electricity costs that are price sensitive to the Alberta Electric System Operator (AESO) Pool Price. If the actual AESO Pool Price is greater than the bought fixed price per megawatt hour, the Company receives the difference between that price and the bought fixed price per megawatt hour. If the actual AESO Pool Price is less than the bought fixed price per megawatt hour, the Company pays the difference between that price and the bought fixed price per megawatt hour. A 10% favorable change would increase the Company's net income by $0.1 million and $0.2 million as of June 30, 2012 and 2011, respectively. A 10% unfavorable change would decrease the Company's net income by $0.1 million and $0.2 million as of June 30, 2012 and 2011, respectively.

Interest rate risks. Prior to the issuance of the Term Loan B on June 15, 2011, the Company was not subject to interest rate risk on the Company's long-term debt as the Notes accrued interest at a fixed rate. The amounts outstanding under the Tranche B Term Loan accrue interest at a variable rate of either, at the Company's option, Adjusted LIBOR plus 3.75% or ABR plus 2.75%, subject to a minimum Adjusted LIBOR floor of 1.0% per annum.

A 1% increase in interest rates would have increased cash interest expense by $0.5 million and $0.8 million for the three and six months ended June 30, 2012, respectively. A 1% decrease in interest rates would not have any impact on the Company's cash interest expense for the three and six months ended June 30, 2012, as the change would still have resulted in the Company accruing interest at the minimum LIBOR floor rate.

At the inception of the Term Loan B, the interest rate floor was considered an embedded derivative as the floor exceeded the LIBOR interest rate at that time. As a result, the fair value of the interest rate floor was measured as a separate financial liability at fair value. In addition, the Company entered into a forward U.S. dollar interest rate swap which effectively fixes the interest rate on U.S.$175.0 million of the long-term debt at 5.5% for a three year period beginning on September 15, 2012. A change in interest rates would result in a change in the fair value of the Company's position in the floor and swap. As of June 30, 2012, a 1% increase in interest rates would increase the Company's net income by $9.0 million and a 1% decrease in interest rates would decrease the Company's net income by $18.5 million.

Under the Revolving Credit Facility, the Company is subject to interest rate risk, as borrowings bear interest at a rate equal to, at the Company's option, either LIBOR, the lenders prime rate, the Bankers' Acceptance rate or the Above Bank Rate, plus an applicable margin based on a pricing grid. For the three and six months ended June 30, 2012, the Company had no outstanding amount under the Revolving Credit Facility.

Currency exchange risks. The Company's assets and liabilities in foreign currencies are translated at the period-end rate. Exchange differences arising from this translation are recorded in the Company's statement of operations. In addition, currency exposures can arise from revenues and purchase transactions denominated in foreign currencies. Generally, transactional currency exposures are naturally hedged (i.e., revenues and expenses are approximately matched), but where appropriate, are covered using forward exchange contracts. All of the foreign currency forward exchange contracts entered into by the Company, although effective hedges from an economic perspective, have not been designated as hedges for accounting purposes, and therefore any gains and losses on such forward exchange contracts impact the Company's earnings. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would affect the fair value of the Company's outstanding forward currency contracts and would decrease the Company's net income by $2.4 million and $2.8 million as at June 30, 2012 and 2011, respectively. A 5% favorable change would increase the Company's net income by $2.4 million and $2.8 million as at June 30, 2012 and 2011, respectively. The Company expects to continue to enter into financial derivatives, primarily forward contracts, to reduce foreign exchange volatility.

Additionally, currency exposure occurs on the principal of the Company's long-term debt and the related interest payments, as they are both denominated in U.S. dollars. As at June 30, 2012, the Company had outstanding U.S. dollar denominated debt of U.S.$648.4 million. The Company has entered into U.S. dollar forward contracts on U.S.$498.0 million of the principal of the Tranche B Term Loan that matures on September 15, 2015, and also sold long-dated U.S. dollar call options to offset the credit cost related to the forward contracts, that expires on September 15, 2015. A 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar would impact both the carrying value of the Company's long-term debt and the related foreign currency contracts and would decrease the Company's net income by $6.5 million and $9.0 million as at June 30, 2012 and 2011, respectively. A corresponding favorable change would increase the Company's net income by $6.5 million and $9.0 million as at June 30, 2012 and 2011, respectively.

With respect to the related interest payments on the Tranche B Term Loan, to date the Company has not entered into any foreign currency hedges. Based on the interest rate in effect at June 30, 2012, a 5% unfavorable change in the value of the Canadian dollar relative to the U.S. dollar as of June 30, 2012 would increase the Company's annual interest expense by $1.6 million. A 5% favorable change in the value of the Canadian dollar relative to the U.S. dollar as of June 30, 2012 would decrease the Company's annual interest expense by $1.6 million.

The Company is exposed to credit loss in the event of non-performance by the other party to the derivative financial instruments. The Company mitigates this risk by entering into agreements directly with a number of major financial institutions that meet the Company's credit standards and that the Company expects to fully satisfy their contractual obligations. The Company views derivative financial instruments purely as a risk management tool and, therefore, does not use them for speculative trading purposes.

ACCOUNTING POLICIES

Critical accounting policies and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the Company's consolidated financial statements. The Company's critical accounting policies and estimates are discussed in the Company's annual 2011 MD&A dated March 6, 2012 as filed on SEDAR.

Future changes in accounting policies

There have been no changes to the Company's future changes in accounting policies in the first six months of 2012. Further information on the Company's future changes in accounting policies can be found in the notes to the Consolidated Financial Statements and annual MD&A for the year ended December 31, 2011.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements. 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. These statements 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. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking statements pertaining to the following:

- *the addition of assets to the business and the increase 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 and exploration activity on shore in North America, including from the Canadian oil sands;*
- *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; and*
- *the Company's dividend policy and continuing availability of the Company's DRIP.*

With respect to forward-looking statements contained in this MD&A, 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;*
- *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*
- *the impact of increasing competition on the Company.*

In addition, this MD&A may contain forward-looking statements and forward-looking information attributed to third party industry sources. The Company does not undertake any obligations to publicly update or revise any forward looking statements except as required by securities law. Actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous risks and uncertainties including, but not limited to, the risks and uncertainties described in "Forward-Looking Statements" and "Risk Factors" included in the Company's Annual Information Form dated March 6, 2012 as filed on SEDAR and available on the Gibson website at www.gibsons.com.

NON-GAAP FINANCIAL MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. EBITDA, Adjusted EBITDA, Pro Forma Adjusted EBITDA and distributable cash flow are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. Management considers these to be important supplemental measures of the Company's performance and believes these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. See ''Summary of Quarterly Results" for a reconciliation of EBITDA to net income (loss), the IFRS measure most directly comparable to EBITDA, and for a reconciliation of Adjusted EBITDA and Pro Forma Adjusted EBITDA to EBITDA. Distributable cash flow is used to assess the level of cash flow generated from ongoing operations and to evaluate the adequacy of internally generated cash flow to fund dividends. See ''Distributable Cash Flow" for a reconciliation of distributable cash flow to cash flow from operations, the IFRS measure most directly comparable to distributable cash flow.

Readers are encouraged to evaluate each adjustment and the reasons the Company considers it appropriate for supplemental analysis. Readers are cautioned, however, that these measures should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indication of the Company's performance.