Gibson Energy Inc.

Condensed Consolidated Financial Statements
June 30, 2012 and 2011
(in thousands of Canadian dollars)

Gibson Energy Inc.

Condensed Consolidated Balance Sheet

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 54,835	$ 64,810
Trade and other receivables (note 5)	393,833	394,980
Inventories (note 6)	123,823	179,959
Income taxes receivable	54,986	55,511
Prepaid expenses and other assets	17,699	10,340
Net investment in finance leases	342	314
Total current assets	645,518	705,914
Non-current assets		
Property, plant and equipment (note 7)	846,291	789,091
Long-term prepaid expenses and other assets	33,757	31,369
Net investment in finance leases	25,196	25,371
Deferred income tax assets	6,657	8,968
Intangible assets (note 8)	117,681	129,915
Goodwill (note 9)	514,590	513,747
Total non-current assets	1,544,172	1,498,461
Total assets	$ 2,189,690	$ 2,204,375
Liabilities		
Current liabilities		
Trade payables and accrued charges (note 10)	$ 391,196	$ 444,785
Dividends payable	24,945	23,362
Deferred revenue	6,660	8,021
Income taxes payable	12,717	830
Current portion of long-term debt (note 11)	6,624	6,611
Total current liabilities	442,142	483,609
Non-current liabilities		
Long-term debt (note 11)	615,675	620,678
Provisions (note 12)	78,437	66,471
Other long-term liabilities	28,683	38,011
Deferred income tax liabilities	140,688	142,385
Total non-current liabilities	863,483	867,545
Total liabilities	1,305,625	1,351,154
Equity		
Share capital (note 13)	1,120,012	1,082,990
Contributed surplus	14,750	21,240
Accumulated other comprehensive loss	(3,072)	(3,504)
Deficit	(247,625)	(247,505)
Total equity	884,065	853,221
Total liabilities and shareholder's equity	$ 2,189,690	$ 2,204,375

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Operations

(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue (note 16)	$ 1,126,219	$ 1,207,909	$ 2,421,147	$2,355,926
Cost of sales (note 17, 18 and 22)	1,090,202	1,185,265	2,333,604	2,289,464
Gross profit	36,017	22,644	87,543	66,462
General and administrative expenses (note 17 and 18)	8,749	11,465	17,405	18,839
Gain on sale of Edmonton North Terminal (note 7)	-	-	-	(20,370)
Other operating expenses (income) (note 19)	(2,951)	(611)	(2,014)	565
Income from operating activities	30,219	11,790	72,152	67,428
Loss (income) from investment in associates	-	(143)	12	(57)
Loss from sale of investment in associates	-	-	34	-
Interest expense	10,752	21,557	21,988	46,038
Gain on financial instruments relating to interest expense (note 22)	(1,836)	(292)	(5,859)	(68)
Interest income	(96)	(100)	(194)	(158)
Foreign exchange loss (gain) on long-term debt (note 11)	10,455	5,167	(5,924)	(12,161)
Debt extinguishment costs	-	166,056	-	166,056
Income (loss) before income taxes	10,944	(180,455)	62,095	(132,222)
Income tax provision (recovery) (note 20)	1,423	(50,217)	12,537	(42,115)
Net income (loss)	$ 9,521	$ (130,238)	$ 49,558	$ (90,107)
Earnings (loss) per share				
Basic	$ 0.10	$ (1.98)	$ 0.50	$ (1.51)
Diluted	$ 0.09	$ (1.98)	$ 0.49	$ (1.51)

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$ 9,521	$ (130,238)	$ 49,558	$ (90,107)
Other comprehensive income (loss)				
Cumulative translation adjustment	3,375	(1,203)	432	(4,702)
Other comprehensive income (loss)	3,375	(1,203)	432	(4,702)
Comprehensive income (loss)	$ 12,896	$ (131,441)	$ 49,990	$ (94,809)

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total Equity
Balance – January 1, 2011	$ 664,724	$ 13,586	$ (6,767)	$ (126,735)	$ 544,808
Net loss	-	-	-	(90,107)	(90,107)
Issuance of common shares in Offering less issuance costs, net of tax	478,256	-	-	-	478,256
Other comprehensive loss	-	-	(4,702)	-	(4,702)
Employee share options:					
Value of services recognized	-	5,138	-	-	5,138
Dividends on preferred shares	7,531	-	-	(7,531)	-
Cancellation of preferred shares on Reorganization	(134,599)	-	-	-	(134,599)
Balance – June 30, 2011	$ 1,015,912	$ 18,724	$ (11,469)	$ (224,373)	$ 798,794
Balance – January 1, 2012	$ 1,082,990	$ 21,240	$ (3,504)	$ (247,505)	$ 853,221
Net income	-	-	-	49,558	49,558
Other comprehensive income	-	-	432	-	432
Employee share options:					
Value of services recognized	-	1,902	-	-	1,902
Exercise of stock options	8,142	-	-	-	8,142
Reclassification of contributed surplus on exercise of stock option and other stock awards	8,392	(8,392)	-	-	-
Issuance of common shares in connection with the Dividend Reinvestment Plan	20,488	-	-	-	20,488
Dividends on common shares	-	-	-	(49,678)	(49,678)
Balance – June 30, 2012	$1,120,012	$ 14,750	$ (3,072)	$ (247,625)	$ 884,065

See accompanying notes

Gibson Energy Inc.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(tabular amounts in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash provided by (used in)				
Operating activities				
Income from operating activities	$ 30,219	$ 11,790	$ 72,152	$ 67,428
Items not affecting cash				
Depreciation of property, plant and equipment (note 17)	20,748	18,491	40,717	34,558
Amortization of intangible assets (note 17)	7,957	7,687	15,875	15,426
Stock based compensation	1,050	4,517	1,902	5,138
Gain on sale of assets	(651)	(170)	(511)	(20,638)
Other	(609)	1,171	(397)	586
Net loss (gain) on fair value movement of financial instruments (note 22)	1,935	(829)	3,000	(3,863)
Changes in items of working capital				
Trade and other receivables	25,661	33,297	16,543	(27,838)
Inventories	20,290	5,807	56,172	45,070
Other current assets	(5,692)	(2,675)	(4,315)	(4,155)
Trade payables and accrued charges	(46,244)	(37,675)	(79,511)	(15,948)
Deferred revenue	1,564	(17,756)	(1,361)	(8,472)
Income taxes	(114)	(123)	489	(189)
Net cash provided by operating activities	56,114	23,532	120,755	87,103
Investing activities				
Purchase of property, plant and equipment	(40,902)	(33,695)	(76,657)	(50,569)
Purchase of intangible assets	(716)	(1,429)	(954)	(2,944)
Acquisition (note 4)	(3,750)	-	(3,750)	-
Proceeds from sale of associate	-	-	596	-
Proceeds on sale of assets	1,503	793	2,245	55,288
Net cash provided by (used in) investing activities	(43,865)	(34,331)	(78,520)	1,775
Financing activities				
Payment of shareholder dividends	(24,733)	-	(48,095)	-
Proceeds from Dividend Reinvestment Plan	8,874	-	20,488	-
Interest paid	(9,540)	(43,678)	(21,067)	(54,562)
Interest received	94	91	189	149
Proceeds from exercise of stock options	3,241	-	8,142	-
Repayment of long-term debt	(664,521)	(743,273)	(666,145)	(743,273)
Proceeds from long-term debt, net of debt discount	664,535	629,343	664,535	629,343
Payment of debt issue and financing costs	(10,378)	(16,646)	(10,378)	(16,646)
Payment of debt extinguishment costs	-	(128,512)	-	(128,512)
Repayment of credit facilities	-	-	-	(152,500)
Proceeds from credit facilities	-	-	-	109,000
Net proceeds (issue costs) from issuance of common shares in Offering	-	472,831	(300)	472,831
Purchase of warrant	-	(134,599)	-	(134,599)
Net cash provided by (used in) financing activities	(32,428)	35,557	(52,631)	(18,769)
Effect of exchange rate on cash and cash equivalents	246	(266)	421	(853)
Net increase (decrease) in cash and cash equivalents	(19,933)	24,492	(9,975)	69,256
Cash and cash equivalents – beginning of period	74,768	51,989	64,810	7,225
Cash and cash equivalents – end of period	$ 54,835	$ 76,481	$ 54,835	$ 76,481

See accompanying notes

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

1 General Information

Gibson Energy Inc. ("Gibson" or the "Company") was incorporated pursuant to the Business Corporations Act (Alberta) on April 21, 2011, with one common share issued to R/C Guitar Cooperatief U.A. ("Co-op"), a Dutch Co-op owned by investment funds affiliated with Riverstone Holdings LLC ("Riverstone"). The Company was formed to become the ultimate parent in the Reorganization, as defined herein. On June 15, 2011, the Company completed an Initial Public Offering (the "Offering"). Concurrent with the Offering, Gibson Energy Inc., Gibson Energy Holding ULC and 1441682 Alberta Ltd. amalgamated into one entity with the surviving entity being Gibson Energy Inc. (the "Reorganization"). The Reorganization was a common control transaction whereby Gibson Energy Inc. was accounted for using continuity of interest and, as such, Gibson Energy Inc. was considered a continuity of Gibson Energy Holding ULC. The Company's shares trade on the Toronto Stock Exchange under the symbol "GEI".

Gibson is engaged in the movement, storage, blending, processing and marketing and distribution of crude oil, condensate, natural gas liquids and refined products. The Company is incorporated and domiciled in Canada. The address of the Company's principal place of business is 1700, 440 Second Avenue S.W., Calgary, Alberta, Canada.

2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB. These condensed consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on August 7, 2012.

The Company's consolidated financial statements are presented in Canadian dollars, the Company's functional currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to $ are to Canadian dollars and references to U.S.$ are to United States dollars. Certain reclassifications of prior period amounts have been made to conform to the current period presentation.

3 Accounting policies and estimates

There have been no changes to the Company's significant accounting policies, future changes in accounting policies and estimates in 2012. The accounting policies adopted are consistent with those of the previous financial year except as follows:

> Income taxes on income in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual profit or loss.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Further information on the Company's significant accounting policies, future changes in accounting policies and estimates can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2011.

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

4 Business acquisitions

The following relates to an acquisition of a company that operates within the same business segments of the Company and will provide the Company an expanded client base. The acquisition was accounted for using the acquisition method with the results from operations included in these financial statements from the date of acquisition.

Fricken Fracken Water Hauling Ltd.

On May 1, 2012, the Company completed the acquisition of all of the issued and outstanding common shares of Fricken Fracken Water Hauling Ltd. ("Fricken Fracken"), for total cash consideration, of approximately $4.6 million. This acquisition expands the Company's market presence in west central Saskatchewan and provides synergies with the Company's custom treating and terminal operations to provide water and transportation services.

Direct costs incurred in connection with the acquisition were $39,000 and have been charged to general and administrative expenses in the statement of operations in the three and six months ended June 30, 2012.

The net assets acquired have been recorded at fair value and include $2.7 million of intangible assets, $1.1 million of property, plant and equipment and $0.7 million goodwill. The goodwill is attributable to the synergies expected to be achieved from integrating Fricken Fracken with the Company's custom treating and terminal operations and is allocated to the Truck Transportation segment. The estimated working capital acquired is $0.1 million.

Included in the purchase price is contingent consideration of $0.5 million which represents its fair value at the acquisition date that is payable if certain earnings targets are met over the next two years.

As a result of the integration of Fricken Fracken into the operations of the Company, it is impractical to determine the impact on revenue and net income for the three and six months ended June 30, 2012. However, management estimates that the impact would not have been material.

5 Trade and other receivables

	June 30, 2012	December 31, 2011
Trade receivables	$ 362,432	$ 384,936
Allowance for doubtful accounts	(6,046)	(4,724)
Trade receivables - net	356,386	380,212
Risk management assets (note 22)	17,883	2,613
Deposits held as collateral	3,679	1,754
Broker accounts receivable	6,543	1,040
GST receivable	1,999	6,388
Other	7,343	2,973
Total trade and other receivables	$ 393,833	$ 394,980

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

6 Inventories

	June 30, 2012	December 31, 2011
Crude oil	$ 53,356	$ 96,672
Diluent	2,988	6,807
Asphalt	28,972	36,107
Natural gas liquids	19,356	28,027
Wellsite fluids and distillate	17,537	10,482
Spare parts and other	1,614	1,864
	$ 123,823	$ 179,959

7 Property, plant and equipment

	Land & Buildings	Pipelines	Tanks	Rolling Stock	Plant, Equipment & Disposal wells	Work in Progress	Total
Cost:							
At December 31, 2011	$ 76,406	$ 100,437	$ 236,173	$ 214,997	$ 292,274	$ 51,624	$ 971,911
Additions	266	396	4,824	29,281	8,346	43,806	86,919
Additions through business combination	-	-	124	885	113	-	1,122
Disposals	(17)	-	(393)	(3,102)	(343)	-	(3,855)
Reclassifications	1,487	121	739	892	22,684	(25,923)	-
Change in decommissioning liabilities	-	1,609	4,740	-	5,193	-	11,542
Effect of movements in exchange rates	15	-	19	141	15	-	190
At June 30, 2012	$ 78,157	$ 102,563	$ 246,226	$ 243,094	$ 328,282	$ 69,507	$1,067,829
Accumulated depreciation:							
At December 31, 2011	$ 11,540	$ 26,624	$ 29,318	$ 60,916	$ 54,422	$ -	$ 182,820
Depreciation	2,089	3,674	6,571	14,148	14,235	-	40,717
Disposals	(16)	-	(101)	(1,787)	(225)	-	(2,129)
Effect of movements in exchange rates	1	-	8	109	12	-	130
At June 30, 2012	$ 13,614	$ 30,298	$ 35,796	$ 73,386	$ 68,444	$ -	$ 221,538
Carrying amounts:							
At December 31, 2011	$ 64,866	$ 73,813	$ 206,855	$ 154,081	$ 237,852	$ 51,624	$ 789,091
At June 30, 2012	64,543	72,265	210,430	169,708	259,838	69,507	846,291

Additions to property, plant and equipment includes capitalization of interest of $0.7 million and $1.1 million for the three and six months ended June 30, 2012, respectively, and $0.4 million and $0.6 million for the three and six months ended June 30, 2011, respectively.

During the six months ended June 30, 2011, the Company completed the sale of the Edmonton North Terminal for total consideration of $54.3 million, and recorded a gain of $20.4 million. As part of the total consideration received, the Company received pipeline assets valued at $0.9 million that provide access to crude oil streams within the Edmonton area and assumed obligations related to these assets. Transaction costs related to the sale of $1.4 million were expensed and are included as part of the gain on sale of Edmonton North Terminal.

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

8 Intangible assets

	Brands	Customer relationships	Long-term Contracts	Non-compete agreements	Technology	Software	Total
Cost:							
At December 31, 2011	$ 41,425	$ 111,093	$ 33,336	$ 17,923	$ 1,600	$ 12,775	$ 218,152
Additions	-	-	-	-	-	954	954
Additions through business combination	-	1,166	-	1,486	-	-	2,652
Effect of movements in exchange rates	-	32	59	12	-	1	104
At June 30, 2012	$ 41,425	$ 112,291	$ 33,395	$ 19,421	$ 1,600	$ 13,730	$ 221,862
Accumulated amortization:							
At December 31, 2011	$ 13,544	$ 50,020	$ 7,033	$ 11,407	$ 1,313	$ 4,920	$ 88,237
Amortization	2,015	9,572	1,807	1,178	215	1,088	15,875
Effect of movements in exchange rates	-	26	29	12	-	2	69
At June 30, 2012	$ 15,559	$ 59,618	$ 8,869	$ 12,597	$ 1,528	$ 6,010	$ 104,181
Carrying amounts:							
At December 31, 2011	$ 27,881	$ 61,073	$ 26,303	$ 6,516	$ 287	$ 7,855	$ 129,915
At June 30, 2012	25,866	52,673	24,526	6,824	72	7,720	117,681

9 Goodwill

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

	Six months ended June 30, 2012	Year ended December 31, 2011
Opening balance	$ 513,747	$ 496,416
Additions through business combinations	726	16,065
Effect of movements in exchange rates	117	1,266
Closing balance	$ 514,590	$ 513,747

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

10 Trade payables and accrued charges

Trade payables and accrued charges include the following items:

	June 30, 2012	December 31, 2011
Trade payables	$ 260,017	$ 319,023
Accrued compensation charges	18,750	26,121
GST payable	771	1,719
Risk management liabilities (note 22)	24,000	6,451
Broker accounts payable	3,193	2,181
Pension liabilities	572	572
Interest payable	317	1,935
Due to Hunting PLC (note 15)	53,568	53,568
Other	30,008	33,215
	$ 391,196	$ 444,785

11 Loans and borrowings

Long-term debt

	June 30, 2012	December 31, 2011
Term Loan	$ 660,759	$ 657,745
Unamortized debt issue costs	(26,658)	(17,809)
Unamortized financial instrument liability discount	(11,802)	(12,647)
	622,299	627,289
Less: current portion	6,624	6,611
Long-term debt: non-current portion	$ 615,675	$ 620,678

On May 24, 2012, through an amendment of its existing credit agreement, the Company replaced and re-priced its existing 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"). The facility has been re-priced to reflect a decrease in the interest rate from LIBOR plus 4.5% to LIBOR plus 3.75% and a decrease in the LIBOR interest rate floor from 1.25% to 1.0%.

The Tranche B Term Loan has an original principal amount of U.S.$650.0 million and has a term expiring on June 15, 2018. The Tranche B Term Loan is repayable in equal quarterly installments at the end of each quarter, totalling 1% per annum of the original principal 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 as defined under the credit agreement, and proceeds from asset dispositions, where such proceeds are not reinvested as capital expenditures within specified time periods. The Tranche B Term Loan accrues interest at the option of the Company at a rate equal to LIBOR plus 3.75% or ABR plus 2.75%, subject to a minimum Adjusted LIBOR floor of 1.0%.

Pursuant to IAS 39 "Financial instruments: Recognition and measurement", the Company is required to account for the replacement and re-pricing as debt extinguishments for various factors including if it is determined that the terms changed substantially. One indication of the existence of substantially different terms is whether the cash flows have changed by more than 10%. In calculating the discounted present value of cash flows, the Company determined that the net present value of cash flows changed by less than 10%. In addition, since the terms of the old and new loan were determined not to be substantially different, the replacement and re-pricing transaction was not accounted for as a debt extinguishment. The Company capitalized $10.1 million relating to the replacement and re-pricing that consisted of a prepayment penalty on the repayment of the Term Loan B of $6.5 million, an original issue discount of $3.3 million and other fees of $0.3 million.

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

With respect to the interest rate floor, it is considered an embedded derivative as the floor rate exceeded the market rate of interest at the time that the Term Loan B was incurred. As a result, the interest rate floor derivative is required to be separated from the carrying value of long-term debt and accounted for as a separate financial liability initially measured at fair value and marked to market at each reporting date (note 22). As a result of the replacement and re-pricing, the fair value of the financial liability related to the interest rate floor was reduced by $7.1 million to reflect the decrease in the LIBOR interest rate floor from 1.25% to 1.0%.

As a result of the movement in exchange rates, the Company recorded a foreign exchange loss of $12.9 million and $1.3 million on the translation of the U.S. dollar denominated long-term debt in the three and six months ended June 30, 2012, as well as a net gain of $2.4 million and $7.2 million, relating to the change in value of financial instruments in place to manage part of the currency risk associated with the Company's U.S. dollar denominated long-term debt (note 22). In the three and six months ended June 30, 2011, the Company recorded a foreign exchange gain on the translation of the U.S. dollar denominated long-term debt of $4.2 million and $21.6 million, respectively, as a result of the movement in exchange rates. Included in both the three and six months ended June 30, 2011 is a loss of $9.4 million relating to the net movement of financial instruments (note 22).

The effective interest rate on long-term debt, excluding the accretion of debt issuance costs, was 5.4% and 5.7% for the three and six months ended June 30, 2012 and 9.9% and 10.5% for the three and six months ended June 30, 2011, respectively.

Credit Facility

On June 15, 2011, the Company established a revolving credit facility (the "Revolving Credit Facility") of up to U.S.$275.0 million, the proceeds of which are available to provide financing for working capital and other general corporate purposes. On May 24, 2012, through an amendment of its existing credit agreement, the Company increased the Revolving Credit Facility by U.S.$100.0 million to up to U.S.$375.0 million. The Revolving Credit Facility expires on June 15, 2016 and borrowings under the Revolving Credit Facility bear interest at a rate equal to, at the Company's option, 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 as determined by recognized credit rating agencies. In addition, The Company must pay a commitment fee of 0.5%, subject to adjustment based on a change in the Company's corporate credit rating, on the unused portion of the Revolving Credit Facility. The Company recorded $3.6 million of fees in prepaid expenses and other assets, in connection with the increase in the Revolving Credit Facility.

The Company had no amounts drawn against the Revolving Credit Facility as at June 30, 2012 and December 31, 2011. The Company had issued letters of credit totalling $30.8 million and $60.5 million as at June 30, 2012 and December 31, 2011, respectively.

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.

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

12 Provisions

The aggregate carrying amounts of the obligation associated with decommissioning and site restoration on the retirement of assets and environmental costs are as follows:

	Six months ended June 30, 2012	Year ended December 31, 2011
Opening balance	$ 66,471	$ 43,251
Provisions reversed	(520)	(1,988)
Assumed in a business combination	-	3,724
Effect of changes in foreign exchange rates	2	13
Additions	624	-
Change in discount rate	10,918	19,772
Unwinding of discount	942	1,699
Closing balance	$ 78,437	$ 66,471

The Company estimates the total undiscounted future value amount, including an inflation factor of 2%, of estimated cash flows to settle the future liability for asset retirement and remediation obligations to be approximately $170.6 million at June 30, 2012 and $169.4 million at December 31, 2011. In order to determine the current provision related to these future values, the estimated future values were discounted using a risk-free rate of 2.3% and 2.8% at June 30, 2012 and December 31, 2011, respectively. The provision is expected to be settled up to 40 years into the future.

13 Share capital

	Number	Share Capital
At January 1, 2012	97,335,641	$ 1,082,990
Exercise of stock options	942,299	8,142
Exercise of other stock awards	455,098	-
Reclassification of contributed surplus on exercise of stock options and other stock awards	-	8,392
Issuance of common shares in connection with the Dividend Reinvestment Plan	1,047,957	20,488
At June 30, 2012	99,780,995	$ 1,120,012

Share based payments

A summary of activity under the 2011 Equity Incentive Plan is as follows:

	Stock Options		RSUs	PSUs	DSU
	Number of shares	Weighted average exercise price (in dollars)	Number of Shares		
At December 31, 2011	3,402,246	$ 8.65	1,408,319	1,604	42,889
Granted	36,538	20.68	96,560	85,123	1,044
Exercised	(942,299)	8.64	(455,098)	-	-
Forfeited	(33,162)	8.64	(67,495)	(5,966)	-
At June 30, 2012	2,463,323	$ 8.83	982,286	80,761	43,933
Vested	2,284,682	$ 8.64	126,546	-	19,553

At June 30, 2012, awards available to grant under the 2011 Equity Incentive Plan were 2,503,696.

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

14 Per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Weighted average common shares outstanding .	99,490	67,401	98,905	64,840
Dilutive effect of:				
Stock options and other awards....................	1,340	1,530	1,473	1,236
Preferred shares...	1,147	12,849	1,280	13,893
	101,977	81,780	101,658	79,969

All share and option amounts have been adjusted to reflect the impact of the Reorganization.

15 Contingent liabilities

The Company is currently undergoing income tax related and excise tax audits. While the final outcome of such audits cannot be predicted with certainty, it is the opinion of management that the resolution of these audits will not have a material impact on the Company's consolidated financial position or results of operations. As part of the acquisition of the Company by Riverstone from Hunting PLC on December 12, 2008, Hunting has indemnified the Company for the pre-closing period impact of these audits. Included in income tax receivable and trade payables and accrued charges as at June 30, 2012 and December 31, 2011 is $53.6 million, whereby Hunting paid the Company and the Company paid the tax assessments relative to certain of these audits.

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. Estimates of asset retirement obligation costs can change significantly based on such factors as operating experience and changes in legislation and regulations.

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

16 Revenue

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Products...	$ 962,193	$ 1,079,167	$ 2,087,047	$ 2,095,436
Services	164,026	128,742	334,100	260,490
	$ 1,126,219	$ 1,207,909	$ 2,421,147	$ 2,355,926

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

17 Depreciation and amortization

	Three months ended June 30		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Depreciation of property, plant and equipment	$ 20,748	$ 18,491	$ 40,717	$ 34,558
Amortization of intangible assets	7,957	7,687	15,875	15,426
	$ 28,705	$ 26,178	$ 56,592	$ 49,984

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

	Three months ended June 30		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Cost of sales	$ 27,752	$ 25,395	$ 54,652	$ 48,430
General and administrative	953	783	1,940	1,554
	$ 28,705	$ 26,178	$ 56,592	$ 49,984

18 Employee salaries and benefits

	Three months ended June 30		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Employee salaries and benefits	$ 34,127	$ 31,774	$ 69,077	$ 59,191

Employee salaries and benefits have been expensed as follows:

	Three months ended June 30		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Cost of sales	$ 29,501	$ 23,422	$ 59,537	$ 46,927
General and administrative	4,626	8,352	9,540	12,264
	$ 34,127	$ 31,774	$ 69,077	$ 59,191

Included in employee benefits is stock based compensation of $1.0 million and $1.9 million for the three and six months ended June 30, 2012 and $4.5 million and $5.1 million for the three and six months ended June 30, 2011, respectively. The stock based compensation expense is included in general and administrative expenses.

19 Other operating expenses (income)

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Gain on sale of property, plant and equipment	$ (651)	$ (170)	$ (511)	$ (268)
Foreign exchange loss (gain)	(2,300)	(441)	(1,503)	833
	$ (2,951)	$ (611)	$ (2,014)	$ 565

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

20 Income tax provision (recovery)

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

	Three months ended June 30		Six months ended June 30,	
	2012	2011	2012	2011
Current	$ 7,243	$ 258	$ 11,918	$ 697
Deferred	(5,820)	(50,475)	619	(42,812)
Income tax provision (recovery)	$ 1,423	$ (50,217)	$ 12,537	$ (42,115)
Effective income tax rate	13.0%	27.8%	20.2%	31.9%

21 Related party transactions

On December 12, 2008, the Company was acquired by an indirect wholly owned subsidiary of Co-op, a Dutch co-op owned by investment funds affiliated with Riverstone. As a result of the Offering and follow on secondary offerings, Co-op had approximately 29% ownership in the Company at December 31, 2011. On March 27, 2012, the Company completed a secondary offering of common shares of the Company held by Co-op, 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 no longer owns any common shares of the Company.

On December 12, 2008, the Company entered into a management agreement with Riverstone, whereby Riverstone provided management advisory services in connection with the general business operations of the Company. The management agreement was terminated in connection with the completion of the Offering. Total management fees were $0.3 million and $0.6 million for the three and six months ended June 30, 2011, respectively.

Concurrently with the completion of the Offering, the Company and Co-op entered into a registration rights agreement to govern the sale of common shares held by Co-op and its affiliates. The agreement also contains customary registration, expense reimbursement and indemnity terms. In connection with the agreement, the Company incurred professional fees relating to a secondary offering of common shares of $0.2 million in the six months ended June 30, 2012.

With respect to companies that Riverstone has a controlling interest or significant interest in, for the period from January 1, 2012 to March 27, 2012, the Company recognized revenue of $0.2 million and purchased product of $46.2 million. For the three and six months ended June 30, 2011, the Company recognized revenue of $0.2 million and $0.4 million, respectively, and purchased product of $45.3 million and $57.7 million, respectively.

Jointly controlled entities

On August 11, 2011, the Company formed a partnership to jointly construct and own a pipeline and an emulsion treating, water disposal and oilfield waste management facility in the Plato area of Saskatchewan. The Company's interest in the partnership is 50%. A member of the Company's Board is also a shareholder and director of the other party with a 50% interest in the partnership. At June 30, 2012, the Company's proportionate share of property, plant and equipment was $5.7 million.

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

22 Financial instruments

The Company has financial instruments other than financial contracts consisting of cash and cash equivalents, trade and other receivables, trade payables and accrued charges, Revolving Credit Facility and long-term debt. Cash and cash equivalents and trade and other receivables are recorded at amortized cost which approximates fair value due to the short term nature of the instrument. Trade payables, accrued charges and dividends payable are classified as other liabilities recorded at amortized cost. The fair value of trade payables, accrued charges and dividends payable approximate their carrying values due to the short term nature of these instruments. Long-term debt is recognized as another liability and held at amortized cost using the effective interest method of amortization. The fair value of long-term debt, based on market information at June 30, 2012 and December 31, 2011 was $657.5 million and $657.7 million, respectively.

Fair Values

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

	June 30, 2012		December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
Commodity futures	$ -	$ 967	$ 159	$ 239
Commodity swaps	17,305	19,514	1,944	2,007
Electricity swap	-	52	-	11
Interest rate swap	-	2,810	-	1,865
Foreign currency forward contracts	13,163	-	10,207	-
Foreign currency options, including deferred premium	-	5,346	-	9,666
Interest rate floor	-	15,924	-	22,722
Total	$ 30,468	$ 44,613	$ 12,310	$ 36,510
Less non-current portion:				
Interest rate swap	-	2,810	-	1,865
Foreign currency options	-	5,346	-	9,666
Foreign currency forward contracts	12,585	-	9,697	-
Interest rate floor	-	12,457	-	18,528
	12,585	20,613	9,697	30,059
Current portion	$ 17,883	$ 24,000	$ 2,613	$ 6,451

The fair value of financial instruments are classified as a non-current asset or liability if the remaining maturity is more than 12 months and, as a current asset or liability, if the maturity is less than 12 months.

(i) Commodity financial instruments

WTI Futures and swaps

The Company has entered into crude oil futures and swap contracts to manage the price risk associated with sales, purchases and inventories of crude oil and petroleum products.

Natural Gas Liquids ("NGL")

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

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

Electricity Price Swap

The Company is a party to 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 $80.49/megawatt hour the Company receives the difference between that price and $80.49. If the actual AESO Pool Price is less than $80.49, the Company pays the difference between that price and $80.49. The contract is for 3 megawatts, 24 hours per day, seven days per week, with a remaining term to December 31, 2012.

(ii) Currency financial instruments

U.S. Dollar Forwards

The Company has entered into forward contracts to sell U.S. dollars in exchange for Canadian dollars to fix the exchange rate on its estimated future net cash inflows denominated in U.S. dollars. The Company also entered into U.S. dollar forward contracts that mature on September 15, 2015 on U.S.$498.0 million of the principal of the Company's long-term debt to help mitigate the currency risk associated with its U.S. dollar denominated long-term debt.

U.S. Dollar Options

In connection with the forward contracts on the principal of the Company's long-term debt and to mitigate the credit cost, the Company sold U.S. dollar call options, expiring September 15, 2015, with a strike price of $1.32 to U.S.$1.00 for which the Company received a cash premium of $4.8 million. At the end of each period, the Company determines the fair value of the call option and recognizes a gain or loss in the period by comparing the fair value of the option with the value of the cash premium received. In the three and six months ended June 30, 2012, as a result of the movement in the fair value of the options, the Company recognized a loss of $3.5 million and a gain of $4.3 million, respectively, on the call options.

Interest Rate Swap

In the year ended December 31, 2011, the Company entered into a U.S. dollar interest rate swap to hedge a portion of the Company's U.S. dollar floating interest rate exposure on the Company's long-term debt. The swap effectively fixes the interest rate on U.S.$175.0 million of the principal at 5.5% for a three year period beginning on September 15, 2012.

Interest Rate Floor

The Tranche B Term Loan carries an interest rate of Adjusted LIBOR plus 3.75%, subject to a minimum Adjusted LIBOR floor of 1.0%. This interest rate floor is considered an embedded derivative as the floor rate exceeded the market rate of interest at the time that the debt was incurred. As a result, the interest rate floor derivative is separated from the carrying value of long-term debt and accounted for as a separate financial liability measured at fair value.

The Company's financial instruments consist of financially settled commodity futures, options, swap contracts, foreign currency forward contracts and foreign currency options. The value of the Company's risk management contracts are determined using inputs that are either readily available in public markets or are quoted by counterparties to these contracts. In situations where the Company obtains inputs via quotes from its counterparties, these quotes are verified for reasonableness via similar quotes from another source for each date for which financial statements are presented. The Company has consistently applied these valuation techniques in all periods presented and the Company believes it has obtained the most accurate information available for the types of financial instrument contracts held. The Company has categorized the inputs for these contracts as Level 1, defined as observable inputs such as quoted prices in active markets; Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; or Level 3 defined as unobservable inputs in which little or no market data exists therefore requiring an entity to develop its own assumptions.

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

The fair value of financial instrument contracts by fair value hierarchy at June 30, 2012 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity swaps	$ 17,305	$ -	$ 17,305	$ -
Foreign currency forward contracts	13,163	-	13,163	-
Total assets	$ 30,468	$ -	$ 30,468	$ -
Liabilities from financial instrument contracts				
Commodity futures	$ 967	$ 967	$ -	$ -
Commodity swaps	19,514	-	19,514	-
Electricity swap	52	-	52	-
Interest rate swap	2,810	-	2,810	-
Foreign currency options, including deferred premium	5,346	-	5,346	-
Interest rate floor	15,924	-	15,924	-
Total liabilities	$ 44,613	$ 967	$ 43,646	$ -

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2011 was:

	Total	Level 1	Level 2	Level 3
Assets from financial instrument contracts				
Commodity futures	$ 159	$ 159	$ -	$ -
Commodity swaps	1,944	-	1,944	-
Foreign currency forward contracts	10,207	-	10,207	-
Total assets	$ 12,310	$ 159	$ 12,151	$ -
Liabilities from financial instrument contracts				
Commodity futures	$ 239	$ 239	$ -	$ -
Commodity swaps	2,007	-	2,007	-
Electricity swap	11	-	11	-
Interest rate swap	1,865	-	1,865	-
Foreign currency options, including deferred premium	9,666	-	9,666	-
Interest rate floor	22,722	-	22,722	-
Total liabilities	$ 36,510	$ 239	$ 36,271	$ -

The Company had no Level 3 financial instruments in the periods ended June 30, 2012 and December 31, 2011.

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cost of sales	$ 1,935	$ (829)	$ 3,000	$ (3,863)
Foreign exchange loss (gain) on long-term debt (note 11)	(2,406)	9,365	(7,208)	9,365
Gain on financial instruments relating to interest expense	(1,836)	(292)	(5,859)	(68)
	$ (2,307)	$ 8,244	$ (10,067)	$ 5,434

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

Financial Risk Management

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

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

a) Foreign Exchange Risk

Foreign exchange risks arise from future transactions and cash flows and from recognized monetary assets and liabilities that are not denominated in the functional currency of the Company's operations.

The exposure to exchange rate movements in significant future transactions and cash flows is managed using forward foreign exchange contracts, currency options and currency swaps. These financial instruments have not been designated in a hedge relationship. No speculative positions are entered into by the Company.

Foreign currency exchange rate sensitivity

If the Canadian dollar strengthened or weakened by 5% relative to the U.S. dollar and all other variables, in particular interest rates remain constant, the impact on net income and equity would be as follows:

	June 30, 2012	June 30, 2011
U.S. dollar forwards		
Favorable 5% change	$ 2,381	$ 2,786
Unfavorable 5% change	(2,381)	(2,786)
U.S. dollar long-term debt forwards and the related options		
Favorable 5% change	$ 6,498	$ 9,025
Unfavorable 5% change	(6,498)	(9,025)

The movement is a result of a change in the fair value of U.S. dollar forward contracts, which have not been designated as a hedge. The sensitivity relating to the Company's long-term debt includes the change in the carrying value of the Company's U.S. dollar denominated long-term debt, the U.S. dollar forward contracts on the principal and the related U.S. dollar call options.

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

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

b) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. The following table summarizes the impact to net income and equity to a change in fair value of the Company's risk management position to changes in interest rates leaving all other variables consistent as at June 30, 2012 and 2011.

	June 30, 2012	June 30, 2011
Interest rate swap		
Favorable 1% change	$ 2,306	$ -
Unfavorable 1% change	(493)	-

	June 30, 2012	June 30, 2011
Interest rate floor		
Favorable 1% change	$ 6,697	$ -
Unfavorable 1% change	(17,970)	-

The Company's interest rate risk exposure does not exist within any of the operating segments, but exists at the corporate level where the variable rate debt obligations are issued.

c) Commodity price risk

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

The following table summarizes the impact to net income and equity due to a change in fair value of the Company's risk management positions because of fluctuations in commodity prices leaving all other variables constant as at June 30, 2012 and 2011. The Company believes that a 15% volatility in crude oil and NGL related prices and a 10% volatility in electricity prices are reasonable possible changes in assumptions. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	June 30, 2012	June 30, 2011
Crude oil and NGL related prices		
Favorable 15% change	$ 2,525	$ 2,828
Unfavorable 15% change	(2,525)	(2,828)
Electricity prices		
Favorable 10% change	$ 80	$ 192
Unfavorable 10% change	(80)	(192)

d) Credit risk

The Company's credit risk arises from its outstanding trade receivables, including receivables from customers who have entered into fixed term contractual arrangements to have dedicated use of certain of the Company's tanks. A significant portion of the Company's trade receivables are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad customer base and by dealing with credit-worthy counterparties in accordance with established credit approval practices. The Company actively monitors the financial strength of its customers and in select cases has tightened credit terms to minimize the risk of default on trade receivables.

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

At June 30, 2012 and December 31, 2011, approximately 10% and 8%, respectively, of net trade receivables are past due but not considered to be impaired. The maximum exposure to credit risk related to trade receivables is their carrying value as disclosed in the financial statements.

The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company does not usually require collateral in respect of trade and other receivables. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. The provision is based on an individual account-by-account analysis and prior credit history.

The Company is exposed to credit risk associated with possible non-performance by financial instrument counterparties. The Company does not generally require collateral from its counterparties but believes the risk of non-performance is minimal. The counterparties are major financial institutions or commodity brokers with investment grade credit ratings as determined by recognized credit rating agencies.

The Company's cash equivalents are placed in high-quality commercial paper money market funds and time deposits with major international banks and financial institutions.

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's process for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required, and as conditions change. Sufficient funds and the Revolving Credit Facility are available to satisfy the Company's requirements over the next 12 months, and are expected to be available to satisfy the Company's long term requirements. The Company has a Revolving Credit Facility of up to U.S.$375.0 million and at June 30, 2012 there was no amount drawn against the facility.

The terms of the Tranche B Term Loan and Revolving Credit Facility require the Company to comply with financial covenants, including maintaining a senior secured leverage ratio and an interest coverage ratio. If the Company fails to comply with these covenants the lenders may declare an event of default. At June 30, 2012, the Company was in compliance with its covenants.

Set out below is maturity analyses of certain of the Company's financial liabilities as recorded on the balance sheet at June 30, 2012. The maturity dates are the contractual maturities of the financial liabilities and the amounts are the contractual undiscounted cash flows.

Financial Liabilities	**On demand or within one year**	**Between one and five years**	**After five years**	**Total**
Trade payables and accrued charges	$ 366,885	$ -	$ -	$ 366,885
Dividend payable	24,945	-	-	24,945
Long-term debt	6,624	26,496	589,179	622,299
Accrued interest on long-term debt	311	-	-	311
Commodity futures	967	-	-	967
Commodity swaps	19,514	-	-	19,514
Electricity swap	52	-	-	52
Interest rate swap	-	2,810	-	2,810
Foreign currency forwards and options	-	5,346	-	5,346
Interest rate floor	3,467	11,015	1,442	15,924
Total financial liabilities	$ 422,765	$ 45,667	$ 590,621	$ 1,059,053

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

Capital management

The Company's objectives when managing its capital structure are to maintain financial flexibility so as to preserve the Company's ability to meet its financial obligations and to finance internally generated growth as well as potential acquisitions.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity, long-term debt, the Revolving Credit Facility and working capital. To maintain or adjust the capital structure, the Company may raise debt and/or adjust its capital spending to manage its current and projected debt levels.

Financing decisions are made by management and the Board based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet), less cash and cash equivalents. Total capital is calculated as net debt plus share capital as shown in the condensed consolidated balance sheet.

	June 30, 2012	**December 31, 2011**
Total financial liability borrowings	$ 622,299	$ 627,289
Less: cash and cash equivalents	(54,835)	(64,810)
Net debt	567,464	562,479
Total share capital	1,120,012	1,082,990
Total capital	$ 1,687,476	$ 1,645,469

If the Company is in a net debt position, the Company will assess whether the projected cash flow and availability under the Revolving Credit Facility is sufficient to service this debt and support ongoing operations.

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

23 Segmental information

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

Terminals and Pipelines includes the tariff-based pipeline services and fee-based storage and terminalling services for crude oil, condensate and refined products, as well as emulsion treating, water disposal services and oilfield waste management. The Company owns and operates major storage terminals located at Edmonton and Hardisty, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin; pipelines and custom blending terminals, which are strategically located throughout Alberta and Saskatchewan; and injection stations, which are located in the United States. At the beginning of 2012, the Terminal and Pipelines segment entered into a revised service agreement with the Marketing segment whereby Marketing contracted volumes on a fixed fee basis as opposed to purchasing product from the custom terminals facilities. 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.

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

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

Processing and Wellsite Fluids includes the refining and marketing of a variety of products, including several grades of road asphalt, roofing flux, frac fluid, distillate and tops.

Marketing includes the purchasing, selling, storing, and blending of crude oil and condensate and taking advantage of specific location, quality, or time-based arbitrage opportunities.

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

Inter-segmental transactions are eliminated upon consolidation. No margins are recognized on inter-segmental transactions.

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company's consolidated financial statements.

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

Three months ended June 30, 2012	**Terminals & Pipelines**	**Truck Transportation**	**Propane & NGL Marketing & Distribution**	**Processing & Wellsite Fluids**	**Marketing**	**Corporate & other reconciling balances**	**Total**
Statement of operations							
Revenue - external	$ 22,769	$ 118,509	$ 139,129	$ 74,219	$ 771,593	$ -	$ 1,126,219
Revenue - inter-segmental	11,363	9,724	38,908	31,593	96,975	-	188,563
Revenue - external and inter-segmental	34,132	128,233	178,037	105,812	868,568	-	1,314,782
Segment profit	19,970	20,950	5,585	1,737	16,409	-	64,651
Depreciation of property, plant and equipment	8,225	7,603	2,228	2,178	64	450	20,748
Amortization of intangible assets	1,284	2,875	1,415	1,711	169	503	7,957
General and administrative	-	-	-	-	-	6,746	6,746
Stock based compensation	-	-	-	-	-	1,050	1,050
Corporate foreign exchange gain	-	-	-	-	-	(2,069)	(2,069)
Interest expense	-	-	-	-	-	10,752	10,752
Financial instruments relating to interest expense	-	-	-	-	-	(1,836)	(1,836)
Interest income	-	-	-	-	-	(96)	(96)
Foreign exchange loss on long-term debt	-	-	-	-	-	10,455	10,455
Income tax provision	-	-	-	-	-	1,423	1,423
Net income (loss)	$ 10,461	$ 10,472	$ 1,942	$ (2,152)	$ 16,176	$ (27,378)	$ 9,521

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

Three months ended June 30, 2011	**Terminals & Pipelines**	**Truck Transportation**	**Propane & NGL Marketing & Distribution**	**Processing & Wellsite Fluids**	**Marketing**	**Corporate & other reconciling balances**	**Total**
Statement of operations							
Revenue - external	$ 27,378	$ 91,709	$ 167,257	$ 79,333	$ 842,232	$ -	$ 1,207,909
Revenue - inter-segmental	213,039	14,684	39,375	32,017	107,468	-	406,583
Revenue - external and inter-segmental	240,417	106,393	206,632	111,350	949,700	-	1,614,492
Segment profit	17,075	13,177	4,660	3,777	9,501	-	48,190
Depreciation of property, plant and equipment	5,893	6,166	2,019	3,942	43	428	18,491
Amortization of intangible assets	530	3,365	1,557	1,710	170	355	7,687
General and administrative	-	-	-	-	-	6,165	6,165
Stock based compensation	-	-	-	-	-	4,517	4,517
Corporate foreign exchange gain	-	-	-	-	-	(603)	(603)
Interest expense	-	-	-	-	-	21,557	21,557
Financial instruments relating to interest expense	-	-	-	-	-	(292)	(292)
Interest income	-	-	-	-	-	(100)	(100)
Foreign exchange loss on long-term debt	-	-	-	-	-	5,167	5,167
Debt extinguishment costs	-	-	-	-	-	166,056	166,056
Income tax recovery	-	-	-	-	-	(50,217)	(50,217)
Net income (loss)	$ 10,652	$ 3,646	$ 1,084	$ (1,875)	$ 9,288	$(153,033)	$ (130,238)

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

Six months ended June 30, 2012	Terminals & Pipelines	Truck Transportation	Propane & NGL Marketing & Distribution	Processing & Wellsite Fluids	Marketing	Corporate & other reconciling balances	Total
Statement of operations							
Revenue - external	$ 46,604	$ 233,598	$ 396,957	$ 183,002	$1,560,986	$ -	$ 2,421,147
Revenue - inter-segmental	25,856	23,344	67,284	66,366	224,809	-	407,659
Revenue - external and inter-segmental	72,460	256,942	464,241	249,368	1,785,795	-	2,828,806
Segment profit	43,023	40,312	20,919	12,466	26,365	-	143,085
Depreciation of property, plant and equipment	16,516	14,621	4,375	4,171	128	906	40,717
Amortization of intangible assets	2,636	5,622	2,822	3,422	339	1,034	15,875
General and administrative	-	-	-	-	-	13,563	13,563
Stock based compensation	-	-	-	-	-	1,902	1,902
Corporate foreign exchange gain	-	-	-	-	-	(1,078)	(1,078)
Interest expense	-	-	-	-	-	21,988	21,988
Financial instruments relating to interest expense	-	-	-	-	-	(5,859)	(5,859)
Interest income	-	-	-	-	-	(194)	(194)
Foreign exchange gain on long-term debt	-	-	-	-	-	(5,924)	(5,924)
Income tax provision	-	-	-	-	-	12,537	12,537
Net income	$ 23,871	$ 20,069	$ 13,722	$ 4,873	$ 25,898	$ (38,875)	$ 49,558

The breakdown of total assets and liabilities by segment is as follows:

	June 30, 2012		December 31, 2011	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
Terminals and Pipelines	$ 726,479	$ 41,408	$ 705,974	$ 42,084
Truck Transportation	356,904	41,659	332,738	36,726
Propane and NGL Marketing & Distribution	314,673	73,930	376,126	101,180
Processing and Wellsite Fluids	355,171	46,756	346,406	42,177
Marketing	272,186	174,662	269,041	197,833
Corporate and other reconciling balances	164,277	927,210	174,090	931,154
Total	$ 2,189,690	$ 1,305,625	$ 2,204,375	$ 1,351,154

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

Six months ended June 30, 2011	**Terminals & Pipelines**	**Truck Transportation**	**Propane & NGL Marketing & Distribution**	**Processing & Wellsite Fluids**	**Marketing**	**Corporate & other reconciling balances**	**Total**
Statement of operations							
Revenue - external	$ 62,545	$ 185,166	$ 409,504	$ 162,443	$1,536,268	$ -	$ 2,355,926
Revenue - inter-segmental	400,697	28,845	62,920	68,266	229,212	-	789,940
Revenue - external and inter-segmental	463,242	214,011	472,424	230,709	1,765,480	-	3,145,866
Segment profit	33,811	29,413	22,208	14,905	14,327	-	114,664
Depreciation of property, plant and equipment	11,930	12,141	4,019	5,550	84	834	34,558
Amortization of intangible assets	1,061	6,764	3,120	3,421	340	720	15,426
General and administrative	-	-	-	-	-	12,147	12,147
Stock based compensation	-	-	-	-	-	5,138	5,138
Gain on sale of Edmonton North Terminal	-	-	-	-	-	(20,370)	(20,370)
Corporate foreign exchange loss	-	-	-	-	-	280	280
Interest expense	-	-	-	-	-	46,038	46,038
Financial instruments relating to interest expense	-	-	-	-	-	(68)	(68)
Interest income	-	-	-	-	-	(158)	(158)
Foreign exchange gain on long-term debt	-	-	-	-	-	(12,161)	(12,161)
Debt extinguishment costs	-	-	-	-	-	166,056	166,056
Income tax recovery	-	-	-	-	-	(42,115)	(42,115)
Net income (loss)	$ 20,820	$ 10,508	$ 15,069	$ 5,934	$ 13,903	$ (156,341)	$ (90,107)

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

Geographic Data

Based on the location of the end user, approximately 20% and 22% of revenue was to customers in the United States for the three and six months ended June 30, 2012, respectively, and approximately 20% and 21% for the three and six months ended June 30, 2011, respectively.

The Company's long lived assets are primarily concentrated in Canada with 12% in the United States at June 30, 2012 and December 31, 2011.

24 Subsequent Events

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

On August 7, 2012, the Board declared a quarterly dividend of $0.25 cents per common share for the three months ended September 30, 2012 on its outstanding common shares. The dividend is payable on October 17, 2012 to shareholders of record at the close of business on September 28, 2012.