PARKLAND INCOME FUND

ANNUAL REPORT 2007

Strong Strategic Successful

Corporate Profile

Parkland Income Fund completed another outstanding year in 2007, demonstrating our ability to grow profitably through acquisitions that reinforce our operating base combined with continued expansion of our service stations and convenience stores. A series of acquisitions during the year broadened our ability to distribute a diverse selection of fuel and related products across western Canada. We also continued to upgrade our network of Fas Gas Plus and Race Trac Fuels service stations. Today, Parkland can provide customers products ranging from propane, lubricants, oilfield fluids and farm chemicals to wholesale and retail gasoline and diesel plus a full suite of convenience store items. Parkland's growth over the past six years has solidified our position as one of Canada's largest independent marketers of transportation and related fuels. Parkland units trade on the Toronto Stock Exchange under the symbol PKI.UN.

TABLE OF CONTENTS

1 2007 At-A-Glance
4 President's Message
7 Chairman's Message
8 Five Year Summary
9 Review of Operations
12 Culture and Community
13 Board of Directors
15 Corporate Information

FORWARD-LOOKING INFORMATION DISCLAIMER Certain information contained herein regarding Parkland Income Fund ("Parkland") including management's assessment of future plans and operations, constitutes forward-looking information or statements under applicable securities laws and necessarily involve assumptions regarding factors and risks that could cause actual results to vary materially, including, without limitation, assumptions and risks associated with retail pricing and margins, availability and pricing of petroleum product supply, volatility of crude oil prices, marketing competition, environmental damage, credit granting, interest rate fluctuation and availability of capital and operating funds. The reader is cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate by Parkland at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect Parkland's operations or financial results are included in Parkland's reports on file with Canadian securities regulatory authorities. In particular see Parkland's MD&A and the Risk Factors and Industry Conditions section of Parkland's Annual Information Form. Parkland's reports may be accessed through the SEDAR website (www.sedar.com) or Parkland's website (www.parkland.ca). Consequently, there is no representation by Parkland that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this document are made as of the date of issue. Parkland does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

2007 At-A-Glance

Strong

Parkland is stronger than ever

Parkland Income Fund is one of Canada's largest independent marketers of transportation fuels. With another record year in fuel sales volumes, merchandise sales, margins, earnings and Unitholder distributions, the acquisition of new business lines and the continued expansion of our service station network, Parkland continues to strengthen its unique position in the marketplace.

Strategic

We build in the markets we know

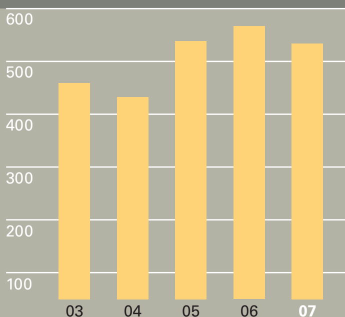
Our strategy is to focus tightly on our base of non-urban, independent fuel and related products marketing. At Parkland we are pursuing four key strategic pillars: continued growth through expansion and acquisition, managing risk through diversification and prudent fiscal management, increasing our competitiveness through service station upgrades and reducing operating costs and improving organizational effectiveness and training programs.

Successful

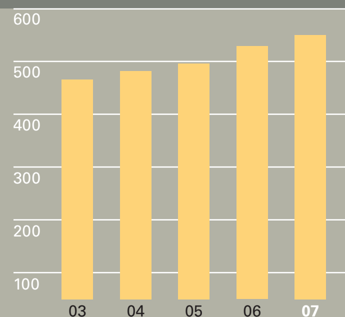
We focus on providing long-term results

By building on our strengths – our market knowledge, our expanding leadership capabilities and expertise, and our disciplined financial management – we are delivering more services to more satisfied customers and a more diversified and secure long-term investment to our investors.

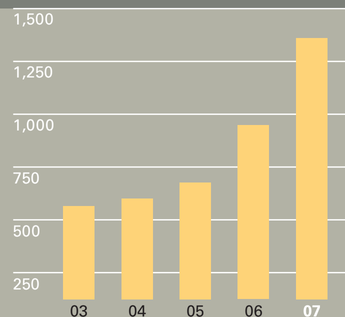
Total Number of Parkland Sites
As at December 31, 2007



Parkland Branded Volumes
As at December 31, 2007
(millions of litres)



Commercial and Reseller Volumes
As at December 31, 2007
(millions of litres)



FAS GAS

As Parkland's traditional brand, Fas Gas has developed a strong and unique position in non-urban markets in western Canada.

FAS GAS PLUS

Parkland has conducted an extensive program with a focus on Fas Gas Plus service stations, which provide improved services and a broader offering. We expect to continue the program over the succeeding years.

SHORT STOP AND SHORT STOP EXPRESS CONVENIENCE FOOD STORES

Parkland's convenience store business has become one of the fastest-growing convenience store chains in non-urban western Canada.

RACE TRAC

Race Trac sites are generally dealer owned and operated local businesses in small markets across Parkland's marketing area.

ESSO BRANDED DEALER SITES

Parkland's Retail Branded Distributorship agreement with Imperial Oil, provides a management contract for Esso independent dealer network in Alberta and Saskatchewan. In 2007 Parkland further expanded this agreement into B.C.

Think like a major; act like

YUKON
NORTHWEST TERRITORIES
YUKON
Whitehorse
Fort Nelson
BRITISH COLUMBIA
ALBERTA
SASKAT
Fort McMurray
Grande Prairie
Edmonton
150 Mile House
Red Deer
Saskatoon
Calgary
Kamloops
Vancouver
Cranbrook
Victoria

GREAT NORTHERN OIL

Parkland owns and operates a bulk facility in Whitehorse, Yukon that provides home heating fuels under the brand name Great Northern Oil.

PARKLAND REFINING LTD.

Parkland owns a refinery at Bowden, Alberta. A number of alternatives are currently being pursued, including storage to generate cash flow from this site.

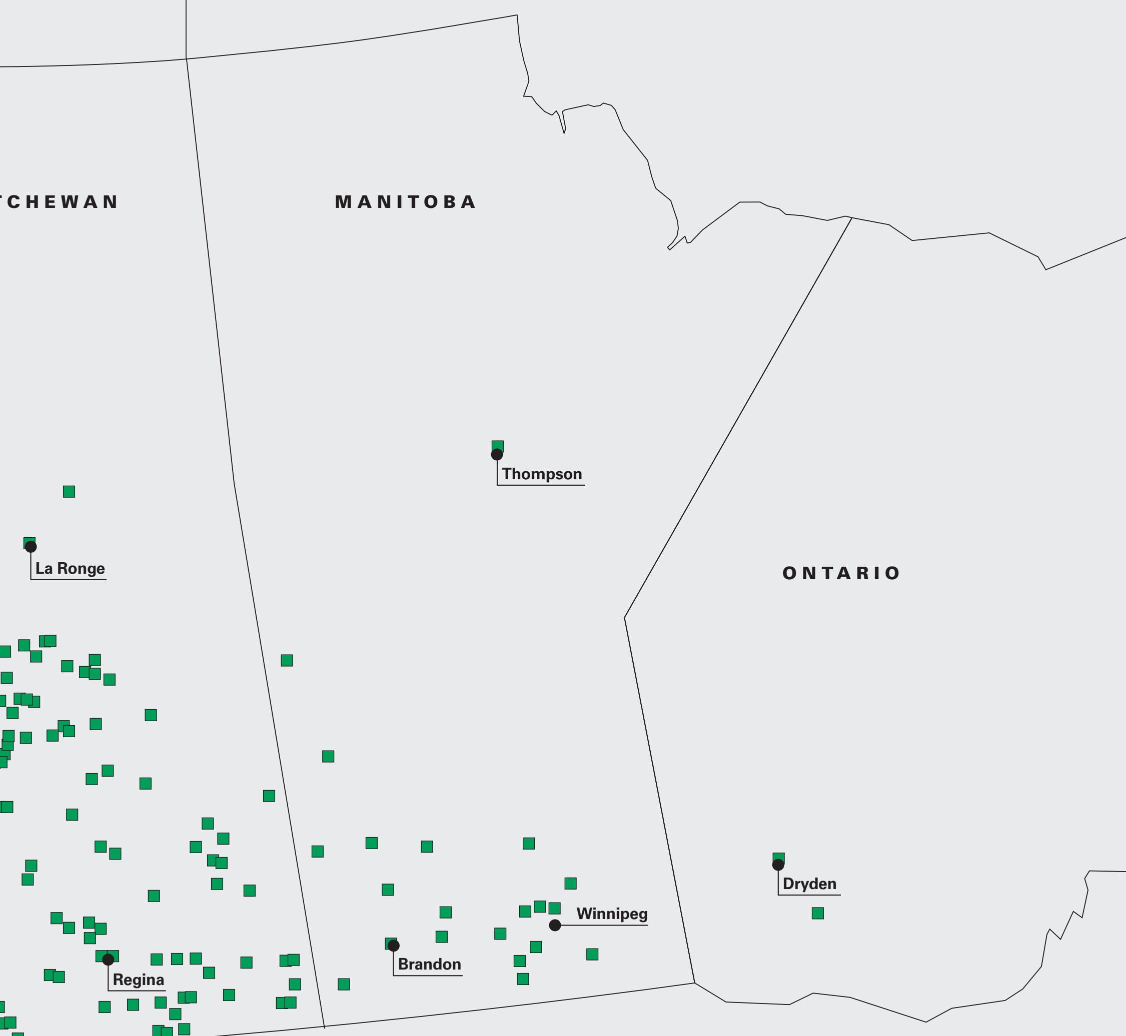
PETROHAUL

One of Parkland's key competitive strengths is its fleet of trucks. Our acquisitions in 2007 introduced additional long haul trucking operations and we are now consolidating the fleet to improve service efficiency.

NEUFELD PETROLEUM AND PROPANE

Based in Grande Prairie, Alberta, Neufeld operates 14 locations in northern Alberta, northeastern B.C. and the Northwest Territories. Neufeld distributes fuel, propane and agricultural inputs such as fertilizers and farm chemicals, along with lubricants, oilfield industrial chemicals and frac oils.

an independent



UNITED PETROLEUM PRODUCTS

UPPI was acquired by Parkland in 2007 and markets fuel and lubricants to a network of commercial accounts and independent service station operators throughout central and western B.C.

JOY PROPANE

In 2007 Parkland acquired Joy Propane, a significant propane supply business operating in northern B.C. and northern Alberta.

President's Message

To our Unitholders,

Michael W. Chorlton

Parkland Income Fund is the largest independent marketer of transportation fuels and related products and services in the non-urban areas of western Canada. Our business today has two distinct operating areas. Our retail service station and convenience store business, which we operate through company-owned sites and independent dealers, utilizes the Fas Gas, Fas Gas Plus, Race Trac Fuels, Short Stop Food Stores and Esso brands. Our commercial business has developed over the past year as we diversified our product and customer base within our core geographic area while maintaining our focus on fuel and related product and services marketing. In addition to motor fuels, the commercial business includes propane, agricultural inputs such as fertilizer and farm chemicals, lubricants and other products to commercial and industrial customers.

This diversification program was based on careful attention to market opportunities and conditions along with a strategic focus on non-urban markets. This program has allowed Parkland to grow in geographic areas traditionally outside the competitive pressure of the major fuel marketers. Today, we believe Parkland's network of primarily non-urban assets is its greatest strength and strategic advantage.

As we enter 2008 we believe three words capture our position: Strong, Strategic and Successful. Let me explain.

Strong

Parkland has captured a unique niche in the retail fuel marketing business. Since our inception in 1977, we have consistently focused on non-urban markets where our intimate market knowledge, our low cost structure and competitive conditions have allowed us to become the leader in our industry segment.

However, we also recognized we would be stronger with greater diversity in revenue streams and have added new businesses over the past 10 years, beginning with the introduction of convenience stores to our retail sites, and then greater product and customer diversity through the acquisition of several companies in the commercial segment.

We are strong financially, a critical factor in today's economy and particularly given our acquisition based growth strategy. We manage our finances conservatively, protecting resources to capture new opportunities or respond to market adversities. At year end our net debt was only 0.31 times 2007 EBITDA.

And perhaps most importantly, our focus on our values and our people give us strength across the organization.

Left to right: **Bradley Williams,** *Vice President, Commercial Business Group* **Stewart MacPhail,** *Vice President, Retail Markets* **Alan Crossley,** *Vice President, Supply and Distribution* **Mike Chorlton,** *President and CEO* **John Schroeder,** *Vice President and CFO* **Abe Neufeld,** *Vice President, Commercial Business Development*

Strategic

Our strategic plan has rested on four consistent pillars in recent years as summarized below.

In 2007 we kicked growth into high gear with the acquisition of the Neufeld companies of Grande Prairie, Alberta in January and the follow up acquisitions of Joy Propane, United Petroleum Products, Oliver's Propane Plus and Roblyn Bulk Sales. These acquisitions became the foundation for our new Commercial Business Unit, providing us a new customer base within a fuel market and geography that we know and understand well.

These acquisitions increased our competitiveness by introducing a counter-seasonal revenue stream to our base business, improving equipment utilization and increasing purchasing power.

ability

While I believe we have proven our ability to execute and integrate acquisitions, our growth in 2007 provided us with even greater operational strength to undertake these transactions.

Our base business continued to grow in 2007 with strong progress in Retail network development. A measure of the success is the 14% increase in average site throughput.

A key strategic objective has been to address our reliance on fuel margins derived from our favourable supply agreements. We believe this risk was significantly mitigated by the 2007 acquisitions, which diversified our customer base, broadened our product offering and increased our service revenues. As well, the counter-seasonality of the acquired business compared with our base Retail business left us less vulnerable to the seasonal swings in fuel margins typical in our traditional gasoline marketing business. Further, we joined a consortium to conduct a feasibility study on the Beaver Hills project, an innovative gasoline, diesel and benzene manufacturing facility in the Edmonton, Alberta area. If Beaver Hills proceeds, Parkland will be its exclusive marketer of gasoline and diesel and share in the refinery margin through its equity ownership position in the project. This would effectively replace long-term supply contracts which have proved highly advantageous to Parkland in recent years.

Finally, our 2007 activity provided Parkland with enhanced organizational capability to support our growth strategy. We gained talent through the acquisitions, successfully attracted key leaders from the industry and launched a values-based leadership program to tie our growing business together with consistent goals and values.

Key strategies going forward

GROWTH

- Completed five Commercial acquisitions
- Building a new information system
- Retail organic growth
- Opportunity pipeline

INCREASE COMPETITIVENESS

- Related products on commercial platform
- Commercial acquisition integration
- Counter cyclical business
- Beaver Hills Project

RISK

- New customer base in Commercial
- Environment Health & Safety programs
- Conservative refinancing

ORGANIZATIONAL EFFECTIVENESS

- Value Based leadership
- Key position recruiting

Think like a major; act like an independent

Successful

The 2007 year was marked by records in most key performance measures.

2007 PERFORMANCE MEASURES

	2007	2006	2005	2006/2007 Change
Fuel Volume *(millions of litres)*	**2,030**	1,501	1,177	35%
Merchandise Sales *($ million)*	**64.5**	59.6	45.0	8%
Gross Margin *($ million)*	**232.5**	138.0	96.4	69%
EBITDA *($ million)*	**115.0**	70.7	41.2	63%
Total Distributions *($ million)*	**90.5**	56.2	23.9	61%

Given this strong financial performance, we took the opportunity to re-invest our funds in businesses which are not reliant on volatile refiners' margins through both acquisitions and organic growth. We successfully completed our biggest acquisition ever, the Neufeld companies. Our $50 million offering of Parkland units was fully subscribed despite the federal government's adverse tax treatment of trusts and appreciation of our units resulted in our decision to split the units three for one.

Going Forward

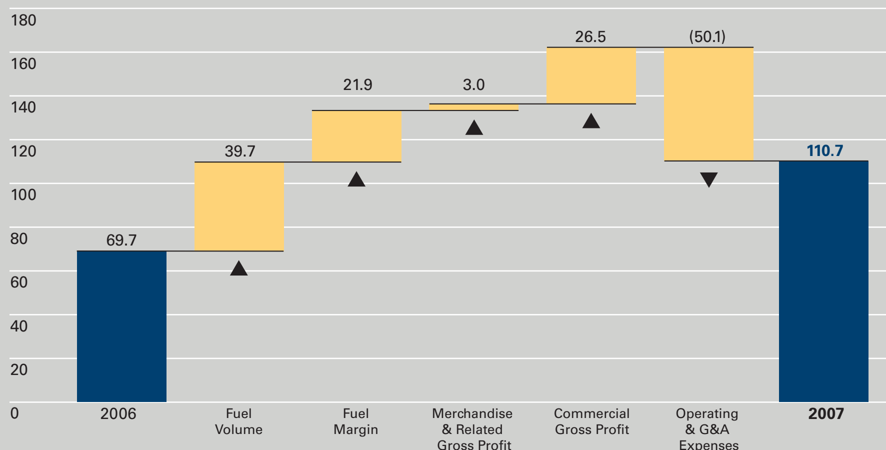
As we move into 2008, we see many reasons to maintain our strategic approach. The near-term economic environment appears increasingly uncertain, with continued volatility in crude oil and petroleum product prices and a U.S. economy that is under increasing pressure.

With these challenges, we expect to see opportunities. And so our strategic approach remains unchanged. We will continue to selectively pursue acquisition opportunities in both the Retail and Commercial areas. Our strong balance sheet and established credit lines leave us well positioned to capitalize on these opportunities. While I believe we have proven our ability to execute and integrate acquisitions, our growth in 2007 provided us with even greater operational strength to undertake these transactions.

We will accelerate programs to improve competitiveness, and we will continue to focus on our people and our values to reinforce the values of hard work, quality service and honest relationships that are the foundation of our corporate culture.

Michael W. Chorlton
President and CEO
February 25, 2008

Year Over Year Changes in EBITDA
($ millions)



Chairman's Message

Jim Pantelidis

We believe in doing the right thing, respecting the needs of customers, employees and others, and achieving greater results by working as a team.

respect

Parkland's corporate values and leadership continue to bring success to the organization. At Parkland, corporate values means more than ensuring that a comprehensive system of stewardship and accountability is in place and functioning among directors, management and employees of the Company. We believe in doing the right thing, respecting the needs of customers, employees and others, and achieving greater results by working as a team.

Parkland is committed to the principles of good governance, and the Company employs a variety of policies, programs and practices to manage corporate governance and ensure compliance. The Board's governance system has long balanced support for the executive team in the development of the group's strategy with the need to ensure effective monitoring of its implementation. In this context, both the full Board and its committees have considered the significant events of the year and their impact on Parkland's business.

Satisfied customers are essential to our success. We are dedicated to creating value for our customers by utilizing proven technological solutions and services. Parkland builds lasting relationships by listening, understanding, anticipating and meeting our customers' needs. As a result, we are easy to do business with and always striving to be responsive, professional and to meet our commitments to our customers.

People are the most vital part of any organization. The way people are treated, at whatever level, has a significant impact on the day-to-day workings of a business and the working environment. At Parkland, we strive to implement some of the best human resources practices. We provide our employees with attractive benefits and compensation packages while managing the performance of employees; we provide a safe working environment; we foster an environment of growth and opportunity; and we actively encourage and support our employees' involvement in the communities we operate.

The work we have done to improve the reputation of Parkland within the investment community over the past two years has reaped the benefits of being seen as a company that has a strategy for growth that we are executing. A series of transactions have been announced and executed through 2006 and 2007. These announcements have been viewed very positively by the investment community, and in turn it is reflected in its strengthening unit price.

It is important to stress that we have a clear strategy and an underlying business that remains robust. Overall, Parkland appears to be well positioned for continued strong performance, with a strong balance sheet, solid, long-term supply contracts and the potential for an additional supply vehicle. Our growth plans continue to balance acquisitions and organic growth. Parkland has proven itself as a savvy, nimble and strategic company able to take advantage of opportunities.

Jim Pantelidis
Chairman, Board of Directors

Five Year Summary

Years ended December 31, ($000's except volume and per unit amounts)	2007	2006	2005	2004	2003
		(restated)	(restated)	(restated)	
Total assets	**$ 375,713**	$ 181,423	$ 140,998	$ 120,873	$ 128,602
Total long-term liabilities	**$ 27,616**	$ 5,829	$ 13,907	$ 17,612	$ 18,170
Sales volume *(millions of litres)*	**2,030**	1,501	1,177	1,101	1,039
Net sales and operating revenue	**$ 1,697,663**	$ 1,199,866	$ 875,539	$ 686,658	$ 567,226
Cost of sales and operating expenses	**1,465,155**	1,061,824	779,092	600,310	489,804
Gross profit	**232,508**	138,042	96,447	86,348	77,422
Direct and operating	**77,668**	47,342	40,338	37,227	34,645
Marketing, general and administrative	**39,846**	20,044	14,885	15,136	13,729
	114,994	70,656	41,224	33,985	29,048
Amortization	**21,627**	8,453	8,077	7,828	7,270
Interest on long-term debt	**1,676**	1,044	873	738	897
Loss on disposal of capital assets	**275**	608	727	1,414	307
Refinery remediation	**2,677**	–	–	–	–
Loss on writedown of refinery	**–**	–	–	25,310	–
Earnings (loss) before income taxes	**$ 88,739**	$ 60,551	$ 31,547	$ (1,305)	$ 20,574
Income tax expense (recovery)	**8,002**	975	2,055	(8,721)	283
Net earnings	**$ 80,737**	$ 59,576	$ 29,492	$ 7,416	$ 20,291
Per unit					
– basic	**$ 1.66**	$ 1 .50	$ 0 .75	$ 0 .19	$ 0 .52
– diluted	**$ 1.64**	$ 1 .48	$ 0 .75	$ 0 .19	$ 0 .52
Merchandise sales	**$ 64,538**	$ 59,624	$ 44,970	$ 38,051	$ 31,266
Total distributions	**$ 90,518**	$ 56,171	$ 23,872	$ 21,075	$ 20,376
Funds flow from operations	**$ 114,013**	$ 69,191	$ 41,960	$ 30,048	$ 28,187
Capital expenditures	**$ 29,475**	$ 11,148	$ 8,588	$ 10,138	$ 9,259
Maintenance capital	**$ 13,465**	$ 6,296	$ 4,525	$ 4,352	$ 5,948
Growth capital	**$ 16,010**	$ 4,852	$ 4,063	$ 5,786	$ 3,311

Review of Operations

Fas Gas was Parkland's original brand. As sites were upgraded the brand was changed to Fas Gas Plus.

brands

OUR RETAIL BUSINESS

Parkland's fuel marketing strategy is built upon four principles.

1. **Non-urban market focus –** invest in those markets where we are best suited to compete and grow market share;
2. **Multi-branded networks –** offer the consumer a branded value proposition tailored to their needs through our Fas Gas, Fas Gas Plus, Short Stop, Short Stop Express, Race Trac and Esso brands;
3. **Non-fuel revenue streams –** lessen our reliance on fuel margins through a continued expansion of our Short Stop and Short Stop Express convenience stores and added focus on the development of car washes and food service relationships; and
4. **Organizational capability –** an increasing focus on developing our people, including a new retail training facility, and broadening our use of technology while maintaining a low cost operating model.

Fas Gas Plus

The Fas Gas Plus brand has grown to be the largest segment of our retail offering. Over the past seven years, these sites have been built or upgraded to provide a consistent in-store merchandise offering either with a 2,000 to 2,500 square foot Short Stop convenience store or a smaller footprint Short Stop Express store. The larger sites are generally company-operated with salaried managers and staff so that Parkland enjoys the full retail fuel and the merchandise profit. The smaller sites are generally operated by company staff or by a contracted operator who supplies all on-site labour in exchange for a commission based on fuel sales volume. Parkland consigns fuel to these smaller sites and enjoys the full retail fuel profit as well as a monthly rent calculated as a percentage of merchandise sales.

Fas Gas was Parkland's original brand used on all retail gasoline operations. As sites were upgraded the brand was changed to Fas Gas Plus. There are nine sites remaining in our network where upgrading is still to come or where property lease terms make upgrading unfeasible or market potential does not warrant further investment.

Race Trac

The Race Trac brand is used for sites which are owned or controlled by independent retailers who enter into long-term, typically five-year fuel supply agreements with Parkland. We provide brand signage, a proprietary fleetcard offering and a loyalty program to the retailers. Our profit from these sites consists of a wholesale fuel margin. The merchandise program which we developed for Fas Gas Plus sites has been rolled out to some of the high quality independent sites.

Esso

In 2005 Parkland entered into a Retail Branded Distributorship Agreement with Imperial Oil under which Parkland has the non-exclusive right to supply branded fuel to independent Esso dealers. Since that original agreement was signed we have steadily increased the distributorship area. Parkland currently serves dealers in Saskatchewan, Alberta and western and central B.C. and earns a wholesalers profit margin on the fuel volume sold. We believe we have maximized the territory currently available under this agreement.

Retail sites are managed at the field level by territory managers who audit each site to ensure our operational compliance and environmental standards are met. They also seek out new independent dealer and new retail site opportunities and manage existing relationships.

CONVENIENCE STORES

One of Parkland's strategies has been to build non-fuel revenue streams. In 1999 we introduced company-operated merchandise sales to our retail gasoline sites and since that time have expanded our Short Stop, Short Stop Express and Fas Gas Plus convenience stores. The impact of this strategy has been to lessen our reliance on fuel margins.

The introduction of merchandise sales to our retail gasoline operations has lessened our reliance on fuel margins.

retail

Short Stop Food Stores

Short Stop Food Stores is Parkland's chain of 24-hour convenience stores with fuel. This brand was launched in 1999 to provide customers with a broader selection of food and convenience products at existing Fas Gas locations where we were well positioned for fuel and convenience store sales growth. With new store sites maturing of those constructed in earlier periods, merchandise sales have more than doubled over the past five years. Short Stop often represents one of the few 24-hour stores in the smaller communities in which they operate.

The Short Stop operating model differs from the standard Fas Gas model in that the stores are Company-operated so Parkland maintains full control of the merchandise and service offering. The stores offer a wide variety of foods, beverages, snacks and convenience products together with services such as lottery terminals and automated teller machines. In 2007, we developed and tested a new and upgraded in-store design which will be widely deployed across the network in the coming years.

Merchandise gross margin for Company-operated stores was 25.4% for 2007. This percentage varies seasonally and in recent years as tobacco manufacturers have moved to lower priced and lower margin product lines and have also changed their distribution channels.

Short Stop Express

We have had significant success in upgrading our existing 800 to 1,000 square-foot service stations and creating a Short Stop Express store offering a more limited selection of products chosen to best suit the local market. Parkland specifies the store layout, decor, the product offering and the product suppliers. The operator pays a rent that is a percentage of sales that varies by product type. We report this revenue as part of the fuel revenue stream and is quantified in our supplementary financial operation.

As we expanded our convenience store business over the past nine years we have developed an experienced team of convenience, food and merchandise sales professionals who evaluate and select sites, develop marketing programs, manage supplier relationships and oversee daily Short Stop operations. The sales growth has significantly enhanced wholesaler and supplier relationships which has resulted in improved costing, product selection and promotional support. Short Stop's growth and improving performance have assisted us in working with these suppliers to develop programs for Short Stop Express. We expect to continue to enhance this strong synergy between the two programs in the future.

COMMERCIAL

In 2007 Parkland acquired the Neufeld group of companies in Grande Prairie, Alberta, Joy Propane in Dawson Creek, British Columbia, United Petroleum Products in Burnaby, British Columbia and the business assets of Oliver Propane in High Prairie, Alberta and Roblyn Bulk Sales in Edson, Alberta. These acquisitions added to our wholesale and commercial fuel volumes and also provided a foothold in the sale and distribution of other products. Propane is supplied for farm use, residential heating and oilfield production sites. We now have a significant lubricants and oilfield fluids distribution business in western Canada as well as marketing propane and agricultural inputs such as fertilizers and farm chemicals. As of December 31, 2007 Parkland operated 23 distribution centres offering some or all of these products across northern Alberta and northeastern British Columbia. The customer base for these products is varied with the largest group being conventional oil production followed by agricultural, oil and gas exploration, residential, forestry and heavy oil production.

In addition to the retail channel of trade, Parkland supplies commercial customers through a chain of 31 cardlocks. Parkland also sells to independent resellers who in turn supply retail operators and commercial customers. These arrangements allow us to fully utilize our supply capacity.

This business segment provides diversification and decreases the seasonality of Parkland's cash flow. The commercial operations are seasonally strong during the fall and winter months while the fuel business is strong during the spring and summer driving seasons.

SUPPLY AND DISTRIBUTION

A key success factor for Parkland is our ability to have secure sources of fuel supply at competitive prices. Parkland continues to enjoy strong relationships with all three major refiners in western Canada. We maintain lifting rights at most western Canadian refineries and primary terminals which provide maximum flexibility to best serve our customers.

We have long-term supply contracts in place which provide favourable product cost.

Fuel is delivered to our service stations by a combination of our own fleet of tractor/trailers and commercial carriers. Maintaining our own fleet provides improved control of quality and timeliness of service. The acquisition of the Neufeld companies in Grande Prairie, Alberta added long haul trucks to our fleet. The counter-seasonal demands of the propane and fertilizer businesses allow us to improve our overall fleet efficiency.

diverse

The new Commercial business segment provides diversification and decreases the seasonality of Parkland's cash flow.

PARKLAND REFINING LTD.

Parkland owns a refinery at Bowden, Alberta which suspended production in 2001. Parkland has been providing processing services to a local petrochemical plant to produce fluids used in the oilfield on a customer fee basis. These services offset some of the ongoing costs of maintaining the site. We were also able to take advantage of the tanks at the refinery during the summer of 2007 for interim fuel storage to help us balance our supply contract volumes and have refurbished the tanks and system to ensure this is a viable revenue producer longer term.

Culture and Community

HEALTH AND SAFETY

Parkland is committed to responsible environmental controls and to protecting the health and safety of its employees, customers and suppliers.

Handling transportation fuels, propane and other products involves environmental risk and Parkland has developed comprehensive risk mitigation programs as well as emergency response procedures. New sites to be acquired are evaluated by an independent environmental consultant and typically would undergo soil testing and testing of any underground tanks and piping. Parkland is well underway with a program to replace underground steel tanks with double-walled fiberglass tanks or aboveground tanks. All remaining double steel tanks in our network are cathodically protected. Each operating site has daily inventory balancing procedures and regular audit of test wells to detect underground leaks.

Parkland has a Health, Safety and Environment department and Health, Safety and Environment Committees which represents all areas of the business. The Committees' mandates are to ensure consistent health and safety processes and documentation throughout the organization and to provide recommendations to management and employees for addressing occupational health, safety and training. During 2007, Parkland successfully completed a health and safety independent audit including the new Neufeld sites.

Parkland has developed comprehensive risk mitigation programs as well as emergency response procedures.

safety

CODE OF CONDUCT

Parkland has established a Code of Conduct and Conflict of Interest Guidelines. The code is provided to all employees and Directors, Officers and Senior Management must acknowledge understanding and compliance. It is available on Parkland's website at www.parkland.ca and the SEDAR website at www.sedar.com.

In cases where employees feel they have serious or sensitive issues, including possible breaches in the code, Parkland has a Whistle Blower Policy that provides a means for the employee to report issues confidentially and, if desired, anonymously. This policy also outlines what actions will be taken and the feedback that will be provided to the employee to ensure that the issue has been addressed.

COMMUNITY INVOLVEMENT

Parkland strives to make a difference in the communities we serve.

At the corporate level, Parkland reinforces this philosophy by supporting the communities we do business with through financial contributions and supporting our employees in their community involvement. We also provide financial support to projects that focus on health, education and youth.

Over the course of 2007, we announced a major funding commitment to Red Deer College in support of their transportation program.

Our Fas Gas Plus Community Care Sponsorship Program is dedicated to improving the quality of life in the communities we serve through supporting organizations that assist families and individuals in need. Our support takes a variety of forms as dictated by the needs of specific projects and may include sponsorship funding, providing facilities and assistance for community fund raising and encouraging our staff to participate directly in the projects. We have provided support for food banks, homeless shelters, women's shelters, youth development, family support and programs for those with special needs.

PRIVACY STATEMENT

Parkland has in place generally accepted standards of technological security for the purpose of protecting all information provided by customers, suppliers and employees from misuse, loss or corruption. Only authorized personnel have access to personally identifiable information submitted to Parkland. Such employees are required to maintain the confidentiality of this sensitive data. The policy also applies to any and all agents, affiliates and related entities of Parkland that may receive such information from Parkland.

Board of Directors

John F. Bechtold

Mr. Bechtold has over 35 years experience in the North American Petroleum Industry including management roles at Gulf Oil Corporation, Gulf Canada and Petro-Canada. During his career he held senior leadership positions in the upstream, mid-stream and downstream segments of the business including 15 years in crude oil and refined product supply and four years in the propane business as President of ICG. From 2003 through 2007 Mr. Bechtold served as a Board Member of the British Columbia Oil and Gas Commission. Past Board positions include Canada's Energy Supplies Allocation Board, the Industry Advisory Board to the IEA, the Canadian Energy Research Institute Board and the Canadian Propane Gas Association Board. He holds BSC (Honours) Chemical Engineering and MSC Petroleum Reservoir Engineering degrees and completed the Senior Executive Management Program at Stanford University. Mr. Bechtold has served on Parkland's Board since August 10, 2006 and is a member of the Compensation and Corporate Governance and the Aromatics Project Committees.

Robert G. Brawn

Mr. Brawn brings 50 years of business experience to Parkland's Board of Directors, having held various management roles with companies operating in the oil and gas industry. Mr. Brawn holds several directorships that span a variety of industries, including banking, energy, construction and retail. He is currently Chairman of Grande Cache Coal Corporation, a Director of Penn West Energy Trust and Black Diamond Income Fund (member of the Compensation Committee). Mr. Brawn also serves on the following non-public companies: Director of ATB Financial (Chairman of the Investment Committee), President, Chairman and sole shareholder of 738831 Alberta Ltd. and President and Chairman of 620306 Alberta Ltd. He is Chairman of the Van Horne Institute, a Transportation Studies Policy Group. Mr. Brawn is a Professional Engineer. Mr. Brawn has served on Parkland's Board since November 13, 1996 and is a member of the Compensation and Corporate Governance Committee.

Michael W. Chorlton

Mr. Chorlton's career progressed from a major petroleum company through agribusiness and high technology. Over a 16 year career at Imperial Oil and Exxon Chemical he occupied leadership positions related to marketing, logistics, customer service, planning, finance, business development and plant operations. In 1992 Mr. Chorlton became President and CEO of Saskferco Products Inc. of Regina, Saskatchewan where he took the company from its $440 million green-field investment in an ammonia/urea complex to high levels of reliability and profitability. Prior to joining Parkland, Mr. Chorlton served for six years as a senior Vice President of Renessen LLC, a biotechnology joint venture in the Chicago area. He has a Bachelor of Mechanical Engineering degree from McGill University and a Master of Business Administration degree from the University of British Columbia. Mr. Chorlton is a former CEO of Saskferco Products Inc. and is a current member of the Board and the Manufacturing and Commodity Risk Committees. Mr. Chorlton became President and CEO of Parkland on September 6, 2005 and has served on the Board since May 5, 2006.

Left to right: **Robert Brawn, Jim Dinning, David Spencer, Michael Chorlton, Kris Matthews, Jim Pantelidis, John Bechtold, Alain Ferland, Ron Rogers**

Jim Dinning

Mr. Dinning is Chair of Western Financial Group Inc., an Alberta-based western Canadian financial services company. Prior to 2005, Mr. Dinning served as Executive Vice President of TransAlta Corporation. Before joining TransAlta, he held several key positions during his 11 years as a member of the legislative assembly of Alberta, including Provincial Treasurer (1992 to 1997). He is a Chairman of the Boards of Western Financial Group Inc. and Export Development Canada. He serves as a Director for Oncolytics Biotech Inc., Russel Metals Inc. and Liquor Stores Income Fund. He is a Director of the following private companies: Elluminate Inc. and the Armstrong Group. He is also a Director of the following not-for-profit organizations: Atlantic Institute for Market Studies, Canada West Foundation and Public Policy Forum. Mr. Dinning has a Bachelor of Commerce degree and a Masters degree in Public Administration, both from Queen's University. He also graduated from the Institute of Corporate Directors Education Program. Mr. Dinning was appointed as a Trustee on August 19, 2004 and was elected a Director of Parkland Industries Ltd. on May 5, 2005 when Parkland reorganized to a corporate trustee model. Mr. Dinning serves on Parkland's Audit Committee.

Alain Ferland

Mr. Ferland has over 30 years of experience in the petroleum industry and has acted as a member of the senior management team in oil, oil services, plastic, airport and biotechnology companies. Mr. Ferland has extensive experience in strategic planning, operations, logistics, sales, marketing, project management and mergers. During his career, Mr. Ferland served on more than ten Boards of Directors, in various capacities. He is currently Chairman of the Board of Spectra Premium Industries Inc. He is also President of EFFA Management Inc. Mr. Ferland has been President of TORR Canada Inc., Aéroports de Montréal, IPL Inc., Geneka Biotechnologies and prior to that was President of Ultramar Ltd. and Vice President of Ultramar Diamond Shamrock. He is a Professional Engineer. Mr. Ferland has served on Parkland's Board since June 22, 1999 and is Chair of Parkland's Compensation and Corporate Governance Committee and a member of the Aromatics Project Committee.

Kris Matthews

Ms. Matthews is Managing Partner of Matthews Group LLP, a public accounting firm providing consulting and accounting services to entrepreneurial companies. She has over 20 years experience in public practice issuing financial statements. Ms. Matthews is a Trustee and Director for Prime Restaurants Royalty Income Fund (Chair of Audit Committee), which is perhaps best known for its Eastside Mario's restaurants. In 2006 she received her designation of ICD.D from the Institute of Corporate Directors. Ms. Matthews was awarded her Fellowship (FCMA) for service to her profession and the community in 2002. She is a Past Chair of CMA Alberta and the CMA Alberta Governance Committee, and represented CMA Alberta as a national board member. Ms. Matthews joined Parkland's Board on May 8, 2003, and is a member of the Audit Committee.

Jim Pantelidis

Mr. Pantelidis is currently Chairman of the Board of Parkland and has served as a Director of Parkland since 1999. Mr. Pantelidis is Chairman and Director of The Consumers Waterheater Income Fund since 2002 (member of the Governance Compensation Committee). He also serves on the Boards of RONA Inc. (member of Human Resources and Compensation Committee) and Industrial Alliance Insurance and Financial Services Inc. (member of Governance and Compensation Committees). From 2002 to 2006 Mr. Pantelidis was on the Board of FisherCast Global Corporation and served as Chairman and Chief Executive Officer from 2004 to 2006. Prior to this, Mr. Pantelidis served as Chairman and Chief Executive Officer for the Bata International Organization. He also spent 30 years in the petroleum industry and was at one time, President of both the upstream and downstream divisions of Petro-Canada. Mr. Pantelidis has a Bachelor of Science degree and a Master of Business Administration degree, both from McGill University. Mr. Pantelidis is Chairman of Parkland's Board and a member of the Audit and Aromatics Project Committees.

Ron Rogers

Mr. Rogers has over 35 years experience in various financial positions with Ernst & Young, Warrington Inc., the Crown Management Board of Saskatchewan, Moore Corporation and Shaw Communications Inc. On retirement in 2004 he was Senior Vice President and Chief Financial Officer of Shaw Communications. He received his Bachelor of Commerce Degree from St. Mary's University with concentrations on philosophy, economics and accounting and subsequently earned his Chartered Accountancy with Ernst & Young. Mr. Rogers is currently a member of the Boards of Corus Entertainment (Chair of Audit Committee and member of Executive Committee), Transforce Income Fund (Chair of Audit Committee) and The Brick Furniture Company (member of Audit Committee and Chair of Distribution Committee). His community involvement has included such organizations as the Mississauga General Hospital Board, the Calgary Division of the United Way Executive Board, the Festival of Trees Executive Committee for the Children's Hospital, the Juvenile Diabetes Research Foundation and the Calgary Stampede Compensation and Pension Committee. Mr. Rogers has served on Parkland's Board since September 15, 2006 and is Chairman of the Audit Committee.

David A. Spencer

Mr. Spencer is a Partner with Bennett Jones LLP in Calgary, where he is co-leader of the firm's public markets practice group. He specializes in corporate finance, mergers and acquisitions and corporate governance. Mr. Spencer was appointed as a Trustee as part of the June 2002 re-organization into a Trust, and was elected as a Director of Parkland Industries Ltd. in 2005 when Parkland reorganized to a corporate trustee model. He received a law degree from the University of Western Ontario. Mr. Spencer is a member of Parkland's Compensation and Corporate Governance Committee.

Management's Discussion and Analysis

The following discussion and analysis of the results of operations and financial condition of Parkland Income Fund should be read in conjunction with the audited Financial Statements for the year ended December 31, 2007. The date of this discussion and analysis is February 25, 2008. Further information on Parkland Income Fund, including its Annual Information Form, is available from SEDAR at www.sedar.com.

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience stores and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

REVIEW OF OPERATIONS

Overview

Parkland's mission is to be the most trusted source of convenience for fuel and related products focused on non-urban markets. It is a marketer of transportation and commercial fuels and an operator of convenience stores with 531 retail service stations, 16 commercial distribution centers and 31 cardlocks in western Canada. It transports fuel to its service station and commercial network through its Petrohaul division and third party carriers and it owns an industrial site in Bowden, Alberta, where it formerly operated a refinery. In 2007, Parkland renewed its refinery license and is currently reviewing alternative uses for the facility.

On January 24, 2007, Parkland acquired the Neufeld companies ("Neufeld"), a leading supplier of transportation fuel, propane, agricultural inputs, lubricants and related products and services in western Canada. The purchase of Neufeld was in part financed by the issuance of Fund Units for net proceeds of $47.5 million through a syndicate of investment dealers.

On April 24, 2007, Parkland acquired Joy Propane Ltd. ("Joy") and on May 28, 2007 it acquired United Petroleum Products Inc ("UPPI"). On November 15, 2007, Parkland acquired the assets of Oliver's Propane Plus, a small propane distributor in High Prairie, Alberta and followed that up with the acquisition of Roblyn Bulk Sales of Edson, Alberta on December 3, 2007.

On May 25, 2007, Parkland completed a division of its Units on a three-for-one basis. The Unit split applied to the Class B and Class C Limited Partnership Units and Fund Units equally.

In the third quarter of 2007, Parkland announced that it would participate as a 25 percent joint venture partner in a study to determine the feasibility of building a $300 million processing facility to refine condensate into petroleum products and other products. Parkland has committed to contributing $3.25 million to the study, which is expected to be completed in 2008.

Parkland changed its accounting policy related to the valuation of inventory from last-in first-out (LIFO) to first-in first-out (FIFO) basis for the year ended December 31, 2007. This change has been mandated by new accounting standards for 2008 and the Fund has chosen to adopt the new standard early. With the acquisitions in 2007 of businesses with substantial volumes of non-fuel business, Parkland had significant categories of inventory that were historically recorded on a FIFO basis. In order to harmonize the accounting methods we opted for early adoption of the FIFO basis and applied the change retrospectively. The change resulted in higher gross profits, EBITDA and net earnings before tax of $0.4 million in the fourth quarter of 2007 (2006 – $1.0 million, 2005 – decrease of $2.9 million). For the year ended December 31, 2007, gross profits, EBITDA and net earnings before tax increased by $4.2 million (2006 – $1.0 million, 2005 – $4.5 million). The 2006 and 2005 comparative numbers in this report are restated for this change.

Retail

Parkland operates service stations under three primary business models and various brands which focus on differing customer segments in British Columbia, Alberta, Saskatchewan, Manitoba, northwestern Ontario, the Northwest Territories and the Yukon. The Parkland-owned brand names under which service stations are operated include Fas Gas Plus, Fas Gas and Race Trac. It is also responsible for managing a portion of the independent dealer network of Imperial Oil Limited in Saskatchewan, Alberta (other than Calgary and Edmonton) and parts of northern and eastern British Columbia under the Esso brand name.

The three primary business models under which stations are run include: Parkland operated or corporate stations, which are managed and staffed by Parkland; commission operated stations, which are managed by an independent operator who provides staff in exchange for a commission on fuel volumes sold, is primarily responsible for any ancillary businesses at the site and pays a rent to Parkland based on a percentage of other sales revenue generated; and independent dealer sites, which are site owned or controlled by a third party who contracts with Parkland for fuel supply for the site.

The following table sets out the number of service stations by brand in the Parkland network as of December 31, 2007.

	Fas Gas Plus	Fas Gas	Race Trac	Esso	Total
Parkland operated and commission operated locations	92	36	2	11	141
Independent dealer operated	26	32	153	179	390
Total	**118**	**68**	**155**	**190**	**531**

Fuel products sold through the network of service stations include gasoline and diesel fuel as well as propane at selected sites. Parkland's strategy is to increase overall sales volumes and average volumes per site within its current marketing area. The actual number of stations may increase or decrease as new sites are added and underperforming sites are closed or sold.

The retail fuel business is highly competitive, with margins ultimately dependent on the spread between crude oil, wholesale fuel costs and retail fuel prices. Due to its focus on non-urban markets, Parkland has limited exposure to the more competitive, larger urban markets where the retail fuel sales are dominated by major oil companies and by more recent entrants such as grocery chains and large retailers. This non-urban focus means Parkland operates in markets where average sales volumes are lower but earnings are enhanced by typically more stable pricing and margins, lower overhead costs and less expensive real estate. Parkland will continue to target growth by leveraging its three unique brands within its existing network and through the acquisition of new sites.

Fas Gas Plus

In 2007, Parkland's strategy has been to maximize penetration of its Fas Gas Plus brand throughout its traditional non-urban markets by continuing investment in the Fas Gas Plus station upgrade and conversion program. It is Parkland's intention to continue this strategy for the foreseeable future. During 2007, 14 sites were upgraded under this program and an additional 10 upgrades are planned for 2008.

Parkland operates its convenience store business under the brand Short Stop Food Stores. As at December 31, 2007, there were 56 Short Stop and Short Stop Express convenience stores at sites that have Fas Gas Plus fuel stations. These stores offer a variety of food, beverage, snack and convenience products as well as lottery terminals and automated teller machines. Many of the stores are open 24 hours per day and, in many of these locations, offer customers the only 24-hour service in the area. Store layouts meet urban standards for quality product offering, lighting, cleanliness, a proprietary coffee program and modern facilities.

During the year Parkland launched a new store design for its Fas Gas Plus brand in Lethbridge, Alberta and is in the process of designing a retrofit for existing locations. The Fas Gas Plus brand brings consumers an urban offering to non-urban markets by continuing to invest and upgrade locations.

Esso

The Retail Branded Distributorship agreement provides Parkland with the opportunity to offer the Esso brand where the brand is currently under represented. Parkland can offer this brand to independent operators or within its company operated network in Alberta, Saskatchewan, British Columbia and the Northwest Territories.

Race Trac

In the independent dealer business, Parkland has focused on increasing its brand value to the operators. The Race Trac brand is positioned for locations where the Fas Gas Plus or Esso brands are not suited and is an important part of Parkland's brand portfolio.

Commercial

Parkland took a significant step forward to improve diversification and reduce seasonality by acquisitions in 2007 which added the sale and distribution of other products and services to its commercial business. The commercial customer base is varied and diverse with the fall and winter months generally providing stronger sales. Emphasis in this market is on strong customer service and reliability of distribution. The acquired companies are well established in the markets in which they serve and Parkland is focused on the integration of these businesses to provide its customers with a more comprehensive service and product offering.

Fuel and Propane Marketing

Through Neufeld and Joy the Fund now markets propane, wholesale and commercial fuels and lubricants to residential, commercial and industrial customers in northern Alberta, northeastern British Columbia and the Northwest Territories. UPPI sells commercial fuel and lubricants in British Columbia.

Fertilizer and Other Agricultural Inputs

Through Neufeld, the Fund now sells fertilizer and other agricultural inputs in northern Alberta.

Cardlock

Parkland markets fuel through 31 cardlock facilities, including nine UPPI sites and eight Neufeld sites. Of the nine UPPI sites, two are Husky branded and seven are UPPI branded. The Neufeld sites consist of four Petro-Canada branded sites and four Neufeld branded sites.

Great Northern Oil

Parkland markets home heating fuel under the brand name Great Northern Oil from a bulk facility in Whitehorse, Yukon. This facility also supports 20 Fas Gas and Race Trac service stations located in northern British Columbia, the Yukon and the Northwest Territories.

ACCRETIVE ACQUISITIONS

Corporate acquisitions are an effective means of consolidating assets, improving efficiencies in existing core areas or adding new core areas. Parkland intends to continue to be proactive, focused and disciplined in its approach to such acquisitions.

Generally, Parkland seeks to make acquisitions that:

- are accretive to funds from operations per Fund Unit;
- increase fuel sales volumes to increase market presence;
- build non-fuel profits to enhance the long-term stability of the enterprise;
- optimize supply contracts; and
- diversify customer base.

In relation to the above strategy, Parkland's goals are to provide long-term sustainable growth in cash flows for its Unitholders.

Years Ended December 31, ($000's except volume and per Unit amounts)	**2007**	2006	2005
Total assets	**375,713**	181,423	140,998
Total long-term liabilities	**27,616**	5,829	13,907
Sales volume *(millions of litres)*	**2,030**	1,501	1,177
Net sales and operating revenues	**1,697,663**	1,199,866	875,539
Cost of sales	**1,465,155**	1,061,824	779,092
Gross profit	**232,508**	138,042	96,447
Expenses			
Operating and direct costs	**77,668**	47,342	40,338
Marketing, general and administrative	**39,846**	20,044	14,885
EBITDA	**114,994**	70,656	41,224
Amortization of capital assets	**21,627**	8,453	8,077
Interest on long-term debt	**1,676**	1,044	873
Refinery remediation	**2,677**	–	–
Loss on disposal of capital assets	**275**	608	727
Earnings before income taxes	**88,739**	60,551	31,547
Income tax expense	**8,002**	975	2,055
Net earnings	**80,737**	59,576	29,492
Per Unit – basic	**1.66**	1.50	0.75
– diluted	**1.64**	1.48	0.75

NON-GAAP MEASURES

EBITDA refers to Earnings Before Interest on Long-Term Debt, Income Tax Expense, Amortization of Capital Assets, Refinery Remediation Accrual and Loss on Disposal of Capital Assets and can be calculated from the GAAP amounts included in the Fund's financial statements. Management believes that EBITDA is a relevant measure to users of its financial information as it provides an indication of pre-tax earnings available to distribute to debt and equity holders in the Fund. The Fund's definition of EBITDA may not be consistent with other providers of financial information and therefore may not be comparable.

THREE MONTHS ENDED DECEMBER 31, 2007

Quarterly Financial Information

	Three months ended			
($ millions, except fuel volumes and per Unit amounts)	March 31	June 30	September 30	December 31
2007				
Fuel volumes *(millions of litres)*	**440**	**471**	**578**	**541**
Net sales and operating revenues	**$ 334.0**	**$ 424.6**	**$ 482.9**	**$ 456.1**
Net earnings	**$ 17.1**	**$ 22.0**	**$ 31.4**	**$ 10.2**
EBITDA	**$ 23.1**	**$ 48.2**	**$ 25.8**	**$ 17.9**
Earnings per Unit *(restated)*				
– basic	**$ 0.37**	**$ 0.42**	**$ 0.63**	**$ 0.24**
– diluted	**$ 0.37**	**$ 0.42**	**$ 0.62**	**$ 0.23**
2006				
Fuel volumes *(millions of litres)*	329	374	412	386
Net sales and operating revenues	$ 241.6	$ 320.2	$ 359.3	$ 278.9
Net earnings	$ 8.7	$ 27.2	$ 8.2	$ 15.5
EBITDA	$ 11.3	$ 29.7	$ 19.1	$ 10.6
Earnings per Unit *(restated)*				
– basic	$ 0.22	$ 0.68	$ 0.21	$ 0.39
– diluted	$ 0.22	$ 0.68	$ 0.20	$ 0.38

Parkland's business has historically been seasonal. Typically, fuel demand is relatively weak in the first and fourth quarter and relatively strong in the second and third quarters, due to spring and summer driving seasons and increased industrial and farm activity creating higher demand. The companies acquired in 2007 have businesses that are counter seasonal to Parkland's and the impact of seasonality on Parkland's consolidated financial results have diminished in 2007. Propane and heating fuel sales are strong in the colder months and fertilizer and agricultural sales and services are strong in the spring and late fall.

In 2006, margins exceeded historical levels in each of the quarters with the second and third quarters being exceptionally strong. Margins were influenced by supply shortages within the western Canadian market as well as the North America wide market. Margins have continued to remain strong throughout 2007, with the peak in fuel margins occurring in the second quarter. Margins declined somewhat during the third quarter but remained strong by historical comparison.

Volume

Fuel volumes increased by 155 million litres in the fourth quarter of 2007 to 541 million litres. The propane business acquired through the acquisitions of Neufeld and Joy earlier in 2007 contributed 44 million litres of new fuel volume. The wholesale, industrial and cardlock volumes of diesel and gasoline acquired through Neufeld and UPPI contributed significantly to the 109 million litre increase (44 percent) compared to the same quarter in 2006. Fuel volumes from the retail business increased by 2 million litres compared to the fourth quarter of 2006, experiencing some restraint due to higher retail fuel prices and a modest weakening of the economy in western Canada.

Sales Revenue

Net sales and operating revenue for the quarter ended December 31, 2007 was $456.1 million compared to $278.9 million in 2006, an increase of $177.2 million or 64 percent, as our results show the activity from the companies that were acquired in 2007. Fuel sales revenue accounted for $414.2 million compared to $263.7 million in the same period last year, an increase of $150.5 million. The increase in fuel sales revenue of 57 percent was greater than the fuel volume increase of 40 percent, which reflects the increased retail selling prices in the fourth quarter of 2007.

Commercial product sales were $26.3 million for the quarter with a significant contribution from late season fertilizer sales. Parkland did not have significant operations in this segment prior to 2007.

Convenience store merchandise sales increased moderately with sales of almost $15.6 million in the quarter as compared to $15.2 million last year, an increase of 3 percent.

Net Earnings

Net earnings for the fourth quarter were $10.2 million compared to $15.5 million in the same period in 2006. Fourth quarter earnings in 2007 included $0.4 million ($1.0 million in 2006) arising from the inventory accounting policy change. Parkland was able to generate $8.4 million of gross profit from its commercial sales segment which was entirely attributable to the acquisitions completed in 2007.

Gross profits of $61.8 million for the quarter increased significantly from the $29.1 million in 2006. Marketing, general and administrative expenses increased by $5.3 million or 86 percent compared to the fourth quarter of 2006. The increase reflected the acquisitions of the new businesses and higher costs related to incentive compensation driven by both higher earnings and expanded operations. Operating and direct costs increased by $20.1 million or 162 percent over 2006. The increase in operating costs related primarily to the acquired businesses.

In the fourth quarter of 2007 Parkland recorded a non-cash charge for future refinery remediation in the amount of $2.7 million (nil in 2006).

Current income tax charges were $1.3 million for the three months ended December 31, 2007 compared to a credit of $7.8 million in the comparative quarter of 2006. In the third quarter of 2006 taxable income was significantly greater than distributions made to Unitholders and a tax provision was recorded in that period. An increase in monthly distributions combined with special distribution payments at December 29, 2006 reduced taxable income considerably which resulted in Parkland recording a current income tax recovery in the fourth quarter of 2006.

EBITDA for the quarter increased to $17.9 million, up from the $10.5 million generated in the same period of 2006.

Capital Assets

Capital expenditures in the fourth quarter of 2007 totalled $16.4 million. The major items include small business acquisitions and three new retail sites.

YEAR ENDED DECEMBER 31, 2007

Net Earnings

Significantly higher fuel volumes, higher average fuel margins and increased convenience store sales and margins all contributed to higher net earnings in 2007. The acquisitions during the year played a major part in the increased business activity and earnings for the year. Parkland was able to generate $28.2 million of gross profit from its commercial sales segment, which was mostly attributable to the Neufeld, Joy and UPPI acquisitions.

Gross profit was $232.5 million, an increase of $94.4 million over 2006. This increase was partially offset by a $19.8 million increase in marketing, general and administrative expenses over 2006 and a $30.4 million increase in operating and direct costs. The increased costs related primarily from the acquired businesses and higher incentive compensation arising from higher profits and expanded operations.

EBITDA in 2007 was $115.0 million, an increase of $44.3 million or 63 percent over 2006, consistent with the increases in gross profits. Net earnings for the year of $80.7 million were significantly higher than the $59.6 million reported in 2006 and $29.5 million in 2005.

Volume

Fuel volumes increased by 529 million litres in 2007 to just over 2.0 billion litres. The propane business acquired through the acquisitions of Neufeld and Joy earlier in 2007 contributed 114 million litres of new fuel volume. The wholesale, industrial and cardlock volumes of diesel and gasoline acquired through Neufeld and UPPI contributed significantly to the 392 million litre increase (40 percent) in wholesale gas and diesel volumes over 2006. Retail volumes increased by 23 million litres (4 percent) over 2006.

Parkland's station upgrade program and addition of new Esso sites continues to drive moderate growth in retail volumes. Reseller volumes also increased to match product purchase availability. Retail volumes are driven by the number of stations in operation, general business and economic conditions, weather and competitive conditions in various markets. Reseller volumes are more dependent on general industry supply and demand conditions. Parkland plans to continue to generate modest volume increases through general market growth, improved performance at existing sites and the addition of new sites as opportunities arise.

Sales Revenue

Net sales and operating revenue for the year ended December 31, 2007 was $1.7 billion compared to $1.2 billion in 2006, an increase of 42 percent. In 2007, fuel sales revenue accounted for $1.558 billion compared to $1.140 billion in 2006, an increase of $418 million. Fuel sales revenue varies with fuel volumes, overall average crude prices and retail and wholesale margins. The increase in fuel sales revenue of 37 percent was slightly greater than the fuel volume increase of 35 percent, reflecting the increased retail selling prices in 2007.

Commercial product sales were $74.9 million for the year ended December 31, 2007 (nil in 2006) as this business segment originated with the acquisitions completed in 2007. Convenience store merchandise sales also increased with sales of $64.5 million in 2007 as compared to $59.6 million in 2006, an increase of 8 percent. Convenience store merchandise sales were up primarily as a result of higher average sales per store and slightly higher retail margins.

Cost of Sales and Gross Profit

Fuel cost of sales increased to $1.370 billion in 2007 as compared to $1.018 billion in 2006. Similar to sales revenue, cost of sales increased as a result of higher volumes and higher average per litre costs of fuel products. Fuel costs are generally driven by changes in the underlying cost of crude oil. Convenience store merchandise cost of sales increased to $48.2 million in 2007 from $44.1 million in 2006, consistent with the increase in merchandise sales.

These factors led to gross profit of $232.5 million in 2007, which was $94.4 million higher than the $138.0 million achieved in 2006. This increase was primarily driven by higher average fuel margins which were 8.79 cents, on a per litre basis, compared to 7.58 cents the prior year. Additional increases resulted from an $0.9 million increase in convenience store margins, $28.2 million addition of gross profit on sales of commercial products and higher overall fuel volumes.

A key driver to margins is Parkland's ability to competitively purchase both fuel and convenience store merchandise. As one of the largest independent fuel retailers in western Canada, Parkland has established positive relationships with the key fuel suppliers in its market area and has long-term contracts with two of its three principal fuel suppliers. These contracts provide Parkland with a consistent source of supply at competitive prices. Additionally, the growth in the convenience store network and the implementation of the Short Stop Express marketing program has improved Parkland's relationships with wholesalers and other merchandise suppliers, providing better pricing, increased incentives and additional promotional support.

Operating Expenses

Operating and direct expenses for 2007 were $77.7 million, up from $47.3 million in 2006, an increase of 64 percent. These increased costs were primarily as a result of the acquisitions. Site operating costs are sensitive to changes in fuel sales volume and, as a result, total costs were higher than the prior year. Also affecting site operating costs is the continued upward pressure on wages that is being experienced in western Canada due to a robust economy and tight labour supply, specifically for convenience store personnel, truck drivers and trades personnel.

Marketing, general and administrative expenses were $39.8 million for the year ended December 31, 2007, an increase of $19.8 million over 2006. Significant drivers of these increased costs were the inclusion of overhead costs of the acquired businesses and provision for higher variable compensation costs arising from strong profits. Staffing levels increased as a result of the acquisitions. The cost of hiring, compensating and retaining employees and consultants remains relatively high due to strong demand, particularly for those with specialized training and experience. Parkland is investing heavily in its employee base by providing for increased training throughout the organization, including the acquired companies. Parkland believes that this investment in its people will generate long term benefits including higher retention and improved efficiency. More onerous regulatory compliance activities are also contributing to the higher costs. Parkland incurred consulting costs during the second half of the year related to a business process reengineering project that has been initiated to improve efficiencies, strengthen internal controls and complete the integration of systems with the acquired companies.

Parkland incurred $0.2 million in maintenance expenses in 2007 and 2006 related to the Fas Gas Plus upgrade program. Although portions of the Fas Gas Plus program are recorded as maintenance capital, there are significant components which represent maintenance expenses. To a large extent these expenses are discretionary and are generating improved results at the upgraded sites.

Included in expenses for the 2007 calendar year are $2.5 million for environmental remediation costs as compared to $1.8 million in 2006. Generally, remediation costs for which Parkland is legally obligated are recorded as an Asset Retirement Obligation and expensed as accretion over the estimated life of the asset. Amounts included in remediation costs generally relate to costs at sites where Parkland decided to replace underground storage tanks even though it was not legally obligated to do so. It is Parkland's policy to upgrade tanks when a major site upgrade takes place, such as a conversion to a Short Stop convenience store. Parkland has a discretionary long-term tank replacement program and plans to continue incurring expenses annually to modernize its underground tank network and reduce its exposure to future environmental liabilities.

Refinery Assets

During 2007, Parkland continued its program of repairs to its storage tanks and voluntary remediation at the Bowden refinery site and incurred costs of $0.9 million related to this program. The refinery site generated revenue of $2.0 million during the year from its custom processing agreement with a petrochemical plant operator. Parkland has received notification from the petrochemical plant operator of its intent to terminate the agreement at the end of 2008. This will be an early termination under the contract and will give rise to a termination fee which will be quantified during 2008 depending on final processed volumes.

Parkland incurred operating and repair costs totalling $2.4 million during 2007, resulting in a net loss of $0.4 million at its refinery site. Many of the repair costs were incurred in advance of applying for renewal of the refinery operating license and in preparation for potential additional operations at the site such as temporary fuel storage. The refinery license renewal was approved in 2007 and Parkland continues to pursue revenue generating opportunities for the site.

The Refinery Remediation Accrual represents the present value estimate of Parkland's cost to remediate this site. The total undiscounted estimated future cash flows, to be incurred over an extended period after operations cease, are approximately $13.8 million net of salvage value of equipment and will be accreted. Discounting these incremental cash flows resulted in a $2.7 million increase in the refinery remediation accrual at December 31, 2007. The costs are expected to be incurred between 2018 and 2027. The discount rate used to determine the present value of the future costs is 6.9 percent (2006 – 6.9 percent).

Capital Assets and Amortization

Amortization expense increased to $21.6 million in 2007 from $8.5 million in 2006. Amortization for capital assets acquired in 2007 plus amortization on intangible assets accounted for most of the increase compared to 2006.

During 2007, Parkland expended $28.9 million in capital investments, excluding acquisitions, of which $14.6 million was classified as maintenance capital and $14.3 million was classified as growth capital. The classification of capital as growth or maintenance is subject to judgment as many of Parkland's capital projects have components of both. It is Parkland's policy to treat all capital related to service station upgrades as maintenance capital even though it includes the expectation of a financial return, while the construction of a new building on an existing site is considered growth capital. For accounting purposes, amounts expended on both maintenance and growth capital are treated as purchases of capital assets.

The primary components of maintenance capital in 2007 were $3.5 million for service station upgrades, $1.5 million for tank replacements, $2.0 million for technology initiatives, $1.3 million for trucks and trailers and $1.3 million for other projects.

The 2007 growth capital related primarily to major upgrades at existing retail sites, expansion of the trucking fleet and tanks and the addition of three new company operated service station sites and 15 new independent dealers. The growth capital incurred related to independent dealers consisted primarily of new signage and pumps.

Parkland owns 104 of the sites in the Fas Gas and Short Stop retail chains, an industrial property in Red Deer which is used as a maintenance facility, a fuel terminal facility in Whitehorse and the refinery property. During 2007, Parkland acquired through corporate acquisition land, land improvements and buildings valued at $28.5 million including major facilities in Grande Prairie, Alberta and Burnaby, British Columbia together with 17 branch locations. These properties are primarily in northern Alberta and British Columbia and represent branch locations. Parkland has lease-to-purchase arrangements on seven of the Fas Gas properties and long-term lease arrangements on an additional 39 sites.

Parkland operates through its Petrohaul division its own fleet of trucks to meet its fuel hauling needs. During 2007, Parkland also acquired the trucking fleets of Neufeld, Joy and UPPI. The long distance bulk carrier fleet as at December 31, 2007 consists of 62 trucks and 71 trailer units. Parkland is focused on continuing to integrate the distribution piece of its operations and capturing additional synergies in 2008. In the third quarter of 2007, Parkland recruited for and successfully filled the Vice President, Supply and Distribution position to provide strategic planning and leadership to this business unit.

Parkland is looking to consolidate and grow its trucking fleet to better serve its widespread and growing marketing network. Parkland's capital plan calls for the addition of 12 power units and trailers in 2008 as part of its long-term objective of handling substantially all of its fuel hauling and reducing its reliance on third party carriers.

It is Parkland's policy to treat all capital related to the replacement and betterment of its fleet as maintenance capital even though it includes the expectation of a financial return, while the addition of new trucks and trailers to increase the size of the fleet is considered growth capital.

Interest

For the year ended December 31, 2007 interest on long-term debt was $1.7 million which was $0.7 million higher than the prior year. Debt levels have increased during the year while interest rates have stayed relatively steady, resulting in the increase in overall interest costs. Approximately 81 percent of Parkland's long-term debt bears interest at variable rates linked to prime.

Income taxes

In 2007, Parkland retained taxable income within corporate subsidiaries resulting in a current tax provision of $1.3 million compared to $0.8 million for 2006. Parkland's income taxes payable are typically nominal as it is a trust and taxes on distributions are paid directly by the Unitholders in Parkland or in its subsidiary, Parkland Holdings Limited Partnership. The 2007 provision results from capital taxes and from retaining funds for corporate purposes.

During the second quarter of 2007, a $7.5 million charge was recorded due to the enactment of the specified investment flow-through ("SIFT") tax legislation during the period. Under the new legislation, in 2011 and beyond, as distributions will no longer be tax deductible, the Fund will not be able to make distributions to reduce its taxable income and is no longer considered to be exempt from income taxes for accounting purposes. Accordingly, the future income tax liability was increased to reflect the current temporary differences expected to be remaining at the Trust level in 2011 using the SIFT tax rate of 31.5 percent. On October 30, 2007, the Government of Canada proposed rate reductions which, if and when enacted, would lower the SIFT tax rate to 28 percent and will reduce future corporate income tax rates by an additional 3.5 percent. With the new legislation, distributions to Unitholders would be taxable beginning in 2011 as distributions will no longer be deductible by the Trust for income tax purposes. Such distributions would not be immediately taxable to investors: they would generally reduce the adjusted cost base of Units held by investors, however, such distributions would potentially be at a lower payout ratio. The new legislation is not currently expected to directly affect our cash flow levels and distribution policies until 2011 at the earliest. The estimate of future income taxes is based on the current tax status of the Fund. Future events, which could materially affect future income taxes such as acquisitions and dispositions and modifications to the distribution policy, are not reflected under Canadian GAAP until the events occur and the related legal requirements have been fulfilled. As a result, future changes to the tax legislation could lead to a material change in the recorded amount of future income taxes.

It should be noted that the charges for future income taxes are a non-cash charge, and are not a proxy for the amount of taxes Parkland may expect to pay starting January 1, 2011, effective with implementation of the federal government's Tax Fairness Plan.

The allocation of taxes to the Unitholders for 2007 is based on the calculated taxable income of the Fund as follows:

($000's)	
Net income before tax	**$ 88,739**
Permanent differences	**106**
Timing differences	**4,320**
Taxable income	**$ 93,165**
Income retained in taxable entities in the Fund	**2,647**
Taxable income to allocate to Unitholders	**$ 90,518**
Distributions	**$ 90,518**
Taxable portion of distributions	**100%**

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Parkland's working capital increased to $28.1 million at December 31, 2007 as compared to $21.4 million at December 31, 2006. The change in accounting policy relating to inventories increased working capital by $13.2 million (2006 – $9.0 million). The cash balance at December 31, 2007 was $6.3 million compared to the December 31, 2006 balance of $36.5 million and cash generated from operating activities during 2007 was $82.8 million compared to $70.3 million in 2006. Cash of $14.8 million net was expended during the year in connection with financing activities and $98.3 million was expended in connection with investing activities, primarily the acquisitions and purchase of capital assets. Further details can be found in the Consolidated Statement of Cash Flows.

During the year Parkland entered into a credit agreement which included a $32.0 million revolving operating facility that will be used primarily for working capital requirements. The facility also provides for letters of credit to a maximum of $30.0 million subject to margin calculations. Parkland has outstanding letters of credit as at December 31, 2007 of $25.1 million (2006 – $24.7 million).

The Commercial business typically extends credit to its customers on terms that exceed average receivable terms. It is not uncommon for Parkland to experience an increase in trade receivables in the fourth quarter with collections occurring in the first and second quarters of the following year. Parkland increased its operating facility to ensure adequate working capital during this period.

Financing Activities

In January 2007, Parkland completed the issuance of 4,080,000 Fund Units (post split) for net proceeds of $47.5 million on a bought deal basis through a syndicate of investment dealers. The proceeds were used in part to fund the purchase of Neufeld.

Parkland assumed debt totalling $30.1 million during the year in connection with the acquisitions of Neufeld, UPPI and Roblyn Bulk Sales. Parkland borrowed an additional $10 million under the Neufeld credit facility shortly after the acquisition. Parkland repaid all assumed debt using proceeds of $22.3 million from its revolving operating facility and $19.5 million in additional term loans.

At December 31, 2007 Parkland had $14.4 million in long-term debt (excluding $4.1 million of the current portion). Management believes that cash flow from operations will be adequate to fund maintenance capital, interest and targeted distributions. Growth capital expenditures in 2007 have been funded by existing cash balances, new debt financing and cash flow from operations. It is management's intent, on an ongoing basis, to finance growth capital through debt or issuance of additional Units. Any additional debt would be serviced by anticipated increases in cash flow and it is expected that current debt to EBITDA ratios would be maintained.

The Company is in compliance with all of the financial covenants under its syndicated credit facility. The ratios are tested on a trailing rolling four quarter basis. The financial covenants under the syndicated credit facility are as follows:

1. Ratio of current assets to current liabilities shall not be less than 1.05 to 1.00 on a consolidated basis;
2. Ratio of funded debt to EBITDA shall not exceed 2.50 to 1.00;
3. Ratio of EBITDA less capital expenditures and taxes to sum of interest, principal and distributions shall not be less than 1.00 to 1.00; and
4. Ratio of funded debt to capitalization shall not exceed 0.50 to 1.00.

In February 2008, Parkland accepted the terms and conditions of a financing arrangement with its primary bank. The financing arrangement increased Parkland's credit facility from $128.1 million to $159.1 million. The financing arrangement is comprised of $32 million for operating debt, $30 million for letters of credit and the remainder for term debt. The increased financing will be used to finance growth opportunities in 2008.

Distributions

The following table sets forth the record date, date of payment, per Trust Unit amount of distributions paid and total cash distributed for 2007:

Record Date	Payment Date	Per Trust Unit	Total Cash Distributed *(000's)*
January 31, 2007	February 15, 2007	$ 0.0800 (1)	$ 3,699
February 28, 2007	March 15, 2007	$ 0.0800 (1)	$ 3,795
March 30, 2007	April 13, 2007	$ 0.0800 (1)	$ 3,797
April 30, 2007	May 15, 2007	$ 0.0800 (1)	$ 3,832
May 31, 2007	June 15, 2007	$ 0.0967	$ 4,675
June 29, 2007	July 13, 2007	$ 0.0967	$ 4,677
July 31, 2007	August 15, 2007	$ 0.0967	$ 4,678
August 31, 2007	September 14, 2007	$ 0.0967	$ 4,681
September 28, 2007	October 15, 2007	$ 0.0967	$ 4,686
October 31, 2007	November 15, 2007	$ 0.0967	$ 4,687
November 30, 2007	December 14, 2007	$ 0.0967	$ 4,688
December 31, 2007	January 15, 2008	$ 0.1050	$ 5,115
December 31, 2007	January 15, 2008	$ 0.3500 (2)	$ 17,049
December 31, 2007	January 15, 2008	$ 0.4200 (3)	$ 20,459 (3)
Total distributions declared to Unitholders		**$ 1.8719**	**$ 90,518**

(1) *These amounts have been presented on a post three-for-one split basis. Actual distributions paid were $0.20 per Unit.*
(2) *Represents the cash portion of a special distribution.*
(3) *Represents the portion of the special distribution that was distributed to Unitholders by way of Trust Units.*

On December 17, 2007, the Board of Directors met to review the results of operations for 2007 and the cash balance on hand and declared a special distribution of $0.77 per Fund Unit. On January 7, 2008, the Board of Directors decided to pay the special distribution in a combination of cash and Fund Units. The cash payments totalled $0.35 per Fund Unit while the Unit payments totalled $0.42 per Fund Unit. The number of Fund Units was established with reference to the 10 day weighted average trading price as at date of record December 31, 2007 which was $16.05 per Unit. Consequently, the Fund Unit portion of the special distribution was 0.02617 Fund Units per Fund Unit owned on the date of record.

Total distributions declared to Unitholders in 2007	**$ 90,518**
Total distributions declared to Unitholders in 2006	$ 56,171
Total distributions declared to Unitholders in 2005	$ 23,872
Total distributions declared to Unitholders in 2004	$ 21,075
Total distributions declared to Unitholders in 2003	$ 20,376
Total distributions declared to Unitholders in 2002	$ 13,208

Distributable Cash Flow

	For the three months ended				For the year ended
($000's)	March 31	June 30	September 30	December 31	December 31
Cash flows from operating activities	$ 4,252	$ 54,946	$ 22,837	$ 801	**$ 82,836**
Less: Total capital expenditures	(3,413)	(3,421)	(7,353)	(16,371)	**(30,558)**
Standardized distributable cash flow [1]	839	51,525	15,484	(15,570)	**52,278**
Add back					
Growth capital expenditures	626	1,993	1,547	11,844	**16,010**
Proceeds on disposal of capital items	298	418	242	125	**1,083**
Increase (decrease) in non-cash working capital	14,849	(18,374)	14,865	19,837	**31,177**
Distributable cash flow	$ 16,612	$ 35,562	$ 32,138	$ 16,236	**$ 100,548**
Distributable cash flow per Unit					
– basic	$ 0.36	$ 0.72	$ 0.65	$ 0.33	**$ 2.05**
– diluted	$ 0.35	$ 0.71	$ 0.64	$ 0.32	**$ 2.03**
Distribution payout ratio [2]	68%	37%	44%	320% [3]	**90%**

[1] *Standardized distributable cash flow is a measure defined by the Canadian Institute of Chartered Accountants (CICA), see discussion below.*
[2] *See Distributions paid to Unitholders.*
[3] *Includes year-end special distribution of $37.5 million.*

Standardized Distributable Cash

The CICA recently published an interpretive release, Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure, in order to provide its recommendations related to the measurement and disclosure of cash available for distributions. The guidance was issued in an effort to improve the consistency, comparability, and transparency of the reporting of the measure commonly referred to as distributable cash flow. Parkland's calculation of standardized distributable cash flow is, in all material respects, in accordance with the recommendations provided by the CICA.

Parkland views the CICA recommendations as a positive step in providing stakeholders with meaningful information, but consistent with the guidance provided by the CICA, Parkland has determined that due to the nature of Parkland's businesses, certain adjustments to standardized distributable cash flow are required to better reflect the cash flow available to be distributed to Unitholders. Parkland's adjusted standardized distributable cash flow is referred to as distributable cash flow. Parkland's distribution policy is based on distributable cash flow on an annualized basis, accordingly, the seasonality of Parkland's individual quarterly results must be assessed in the context of annualized distributable cash flow. Adjustments recorded by Parkland as part of its calculation of distributable cash flow include, but are not limited to, the impact of the seasonality of Parkland's businesses by adjusting for non-cash working capital items thereby eliminating the impact of the timing between the recognition and collection/payment of Parkland's revenues and expenses, which can from quarter to quarter differ significantly. Parkland's calculation also distinguishes between capital expenditures that are maintenance related and those that are growth related, in addition to allowing for the proceeds received on the sale of capital items.

Productive capacity maintenance is the amount of capital funds required in a period for an enterprise to maintain its future cash flow from operating activities at a constant level. Parkland defines its productive capacity as volume of fuel and propane sold, volume of convenience store sales and volume of lubricants sales, agricultural inputs and delivery capacity. The adjustment for productive capacity maintenance in our calculation of standardized distributable cash is our capital expenditures during the period excluding the cost of any asset acquisitions or proceeds of any asset dispositions. We believe that our current capital programs, based on our current view of our assets and opportunities and our outlook for fuel supply and demand and industry conditions, should be sufficient to maintain our productive capacity in the medium term. Due to the risks inherent in the industry, particularly our reliance on external parties for the supply of fuel and propane, general economic conditions and weather that affects customer demand, there can be no assurance that capital programs, whether limited to the excess of cash flow over distributions or not, will be sufficient to maintain or increase our production levels or cash flow from operating activities. As we strive to maintain sufficient credit facilities and appropriate levels of debt, the seasonality of our business is not currently expected to influence our distribution policies.

Our calculation of standardized distributable cash has no adjustment for long-term unfunded contractual obligations. We believe our only significant long-term unfunded contractual obligation at this time is for asset retirement obligations and refinery remediation, both of which are expected to be deferred for an extended and undefinable period of time. Cash flow from operating activities, used in our standardized distributable cash calculation, includes a deduction for accretion expenditures incurred during each period. We believe that our current environmental programs will be sufficient to fund our asset retirement obligations.

We currently have no financing restrictions caused by our debt covenants. We regularly monitor our current and forecast debt levels to ensure debt covenants are not exceeded.

Although it is typical for Parkland's cash flow to have seasonal fluctuations, it is management's current intention to pay consistent regular monthly distributions throughout the year based on estimated annual cash flows. The Directors review distributions quarterly giving consideration to current performance, historical and future trends in the business and the expected sustainability of those trends, as well as capital betterment requirements to sustain performance. During 2007, distributions represented a payout ratio of 78.7 percent of EBITDA or 90.0 percent of Distributable Cash Flow.

Contractual Obligations

Parkland has contracted obligations under various debt agreements as well as under operating and capital leases for land, building and equipment. Minimum lease and principal payments under the existing terms are as follows:

Year ending December 31 ($000's)	Mortgages, Bank Loans and Notes Payable	Operating Leases	Capital Leases
2008	2,615	2,404	1,486
2009	2,583	1,586	450
2010	2,565	955	388
2011	2,543	490	265
2012	2,504	315	265
Thereafter	1,915	577	2,376

Parkland also has purchase commitments under its fuel supply contracts that require it to purchase approximately 1.9 billion litres of product over the next year.

CRITICAL ACCOUNTING ESTIMATE

At December 31, 2004, Parkland recorded the net estimated liability that would be realized if the refinery assets were remediated, dismantled and sold for salvage values. Estimated remediation costs were supported by a third party report, while other costs were based on management estimates.

During 2007 Parkland activated a portion of the refinery to toll produce fluids used in the oilfield and utilized tankage for fuel storage. Parkland continues to pursue other economically viable uses for the remaining processing units at the refinery and therefore any decision to dismantle, remediate and sell the refinery site has been deferred indefinitely. Parkland renewed its refinery operating license in 2007 and fully intends to maximize the revenue generating potential of this facility. The obligations relating to future environmental remediation, however, continue to exist.

Assuming Parkland continues operations at the refinery, remediation for any potential environmental liabilities associated with a complete dismantling of the site would be delayed indefinitely. Parkland has estimated the cost of remediation on the basis that any future remediation would be part of a multi-year management plan. Remediation costs have been estimated from independent engineering studies conducted in January 2008 resulting in an additional $3.0 million accrual as at December 31, 2007. The studies recognize increases in remediation costs as well as increases in remediation standards since the original study conducted in 1999. The expected cost, to be incurred over an extended period after operations cease, are approximately $6.1 million net of salvage value of equipment.

Actual costs and salvage values could differ significantly from these estimates when, and if, the refinery is remediated, dismantled and sold.

NON CAPITAL RESOURCES

Employees

Parkland's ability to deliver on its strategy is contingent on retaining and acquiring employees with the proper skill sets to drive the key initiatives forward. As such, there is a focus on recruiting and retaining key employees. To date, Parkland has been successful at filling key positions as needed. Compensation plans for senior management have significant incentive arrangements, with overall compensation dependent on Parkland's performance, business unit operating performance and results on individually identified key initiatives.

Parkland has an active Human Resources department, with compensation plans and benefits reviewed on an ongoing basis to best meet the needs of Parkland and the various employee groups it includes. In lieu of a pension plan, Parkland provides a Unit purchase plan with matching employer contributions. A profit sharing plan is also available to most employees with greater than one year service. Initiatives like these are intended to bring a sense of ownership to the employee groups as increases in profits and Unit prices are beneficial to all.

Safety

In addition to other risks, Parkland's primary business involves the transportation and sale of fuel products, which have an inherently high degree of risk. Parkland provides training to all staff as required to mitigate these risks and has operations and response manuals to cover common situations. Safety bonuses are also provided to employees in higher risk roles as a means of motivating safe performance of duties.

Parkland has a Director of Health, Safety & Environment ("HSE"), two HSE officers and HSE Committees. The HSE Committees represent all areas of Parkland's business and ensures all identified risks are properly mitigated and that procedures and documentation are consistent across the entire organization. In 2006 and 2007, Parkland satisfactorily completed external audits of its safety program and facilities.

Technology

Parkland utilizes technology to assist with the administration and control of its operations. Technology initiatives are primarily implemented in-house with outside consultants used to assist in specific areas. Parkland's technology initiatives include upgrading Point of Sale systems at convenience store and service station sites, upgrading cardlock hardware and software; expanding the use of its handheld inventory billing devices for bulk fuel sales and continued maintenance and security related to overall network administration and Emergency Response Plan processes.

Parkland is currently undergoing extensive business process re-engineering and an upgrade of its enterprise resource planning ("ERP") software. Parkland has engaged external consultants who have experience in the fuel marketing industry and with our ERP software to assist management with this project. Extensive testing in a controlled environment will be conducted before implementing any changes to Parkland's accounting and reporting systems.

Based on the current long-range technology plans, Parkland plans to implement technology changes using qualified and experienced external consultants within a test environment to minimize any undue risk to Parkland's business related to required or planned technology changes.

BUSINESS RISKS

Risks Related to the Business and the Industry

Retail Pricing and Margin Erosion

Retail pricing for motor fuels is very competitive, with major oil companies and new entrants such as grocery chains and large retailers active in the marketplace. From time to time, factors such as competitive pricing, seasonal over-supply and lack of responsiveness of retail pricing to changes in crude oil costs can lead to lower margins in Parkland's business. This is normally limited to seasonal time frames or limited market areas but could occur more extensively. Furthermore, difficult fuel market conditions may also adversely affect Parkland's major customers and create increased credit risk. These risks are partially mitigated by Parkland's other sources of revenue, conservative credit policies, geographic diversification and by the wholesale business, which typically would only share in a portion of any market erosion.

Competition

We compete with major integrated oil companies, other commercial fuel and propane marketers, convenience store chains, independent convenience stores, gas station operators, large and small food retailers, discount stores, club stores and mass merchants, many of which are well-established companies. In recent years, several non-traditional retail segments have entered the motor fuel retail business, including supermarkets, club stores and mass merchants. These non-traditional motor fuel retailers have obtained a significant share of the motor fuel market and their market share is expected to grow. The emergence of large scale highway truck stops throughout western Canada has reduced our share of this market and customer demographic. In some of our markets, our competitors have been in existence longer and have greater financial, marketing and other resources than we do. We may not be able to compete successfully against current and future competitors, and competitive pressures faced by us could materially and adversely affect our business, results of operations and financial condition.

Volatility in Crude Oil Prices and in Wholesale Petroleum Pricing and Supply

Our motor fuel and propane revenues are a significant component of total revenues. Crude oil and domestic wholesale petroleum markets display significant volatility. We are susceptible to interruptions in the supply of motor fuel at our facilities. General political conditions and instability in oil producing regions, particularly in the Middle East, Africa and South America, could significantly and adversely affect crude oil supplies and wholesale production costs. Local supply interruptions may also occur. Volatility in wholesale petroleum supply and costs could result in significant changes in the retail price of petroleum products and in lower fuel gross margin per litre. In addition, changes in the retail price of petroleum products could dampen consumer demand for motor fuel. These factors could materially influence our motor fuel volume, motor fuel gross profit and overall customer traffic, which, in turn could have a material adverse effect on our operating results and financial condition. The development of the oilsands in northern Alberta, together with upgraders producing a distillate stream has the potential to add significant supply volumes in the diesel market. Production at these facilities is subject to production interruptions which can periodically disrupt the availability of refined product in the region.

Some of our supply costs allow us to participate in refiners margins. These margins are volatile and not assured.

Credit

Parkland grants credit to customers ranging from small independent service station operators to larger reseller and commercial/industrial accounts. These accounts may default on their obligations. Parkland manages this exposure through rigorous credit granting procedures, typically short payment terms and security interests where applicable. We attempt to closely monitor financial conditions of our customers.

Safety and Environmental

The operation of service stations, refinery facilities and petroleum, propane and ammonia transport trucks and commercial facilities carry an element of safety and environmental risk. To prevent environmental incidents from occurring, Parkland has extensive safety and environmental procedures and monitoring programs at all of its facilities. To mitigate the impact of a major accident, Parkland has emergency response programs in place and provides its employees with extensive training in operational responsibilities in the event of an environmental incident.

Dependence on Key Suppliers

Parkland's business depends to a large extent on a small number of fuel suppliers, a number of which are parties to long-term supply agreements with the Fund. An interruption or reduction in the supply of products and services by such suppliers could adversely affect Parkland's revenue and distributions in the future. Further, if any of the long-term supply agreements are terminated or end in accordance with their terms, Parkland may experience disruptions in its ability to supply customers with product until a new source of supply can be secured, if at all. Such a disruption may have a material negative impact on Parkland's revenues, distributions and its reputation. Additionally, Parkland cannot ensure that it will be able to renegotiate such agreements or negotiate new agreements on terms favourable to Parkland.

Parkland is attempting to mitigate this risk by diversifying its supply portfolio to include substantial volumes from each of its major suppliers and growing to a level of annual sales volumes that will offer potential suppliers a compelling share of the fuel supply business in our regional market. A majority of Parkland's fuel supply, measured by volume, is not subject to termination for at least five years.

Economic Conditions

Demand for transportation fuels fluctuates to a certain extent with economic conditions. In a general economic slowdown there is less recreational and industrial travel and consequently less demand for fuel products, which may adversely affect Parkland's revenue, profitability and ability to pay distributions.

Dependence on Key Personnel

Parkland's success will be substantially dependent on the continued services of senior management. The loss of the services of one or more members of senior management could adversely affect Parkland's operating results. In addition, Parkland's continued growth depends on the ability of Parkland and its subsidiaries to attract and retain skilled operating managers and employees and the ability of its key personnel to manage Parkland's growth and consolidate and integrate its operations. There can be no assurance that Parkland will be successful in attracting and retaining such managers, employees and other personnel.

Alternate Fuels

Industry continues to develop alternatives to fossil fuels for motive transport and continues to improve the efficiency of internal combustion engines. To date, no economically viable alternative to the transportation fuels Parkland markets is widely available. Should such an alternative become widely available, it may negatively affect the demand for Parkland's products. As well, the federal government and certain provinces have developed or are developing legislation requiring the inclusion of ethanol in gasoline and use of biodiesel which may negatively affect the overall demand for fossil fuel products.

Technology

At the operational level, Parkland relies on electronic systems for recording of sales and accumulation of financial data. A major breakdown of computer systems would disrupt the flow of information and could cause a loss of records. This is mitigated by redundancies, emergency response plans and back up procedures. The conversion and upgrade of electronic systems could result in lost or corrupt data which could impact the accuracy of financial reporting and management information.

Insurance

Although we have a comprehensive insurance program in effect, there can be no assurance that potential liabilities will not exceed the applicable coverage limits under our insurance policies. Consistent with industry practice, not all risk factors are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis. We do not maintain insurance coverage for environmental damage.

Management Operations of Industries LP

The Board of Directors of Parkland Industries Ltd. oversees the management and operation of Parkland's operating entities. As a result, Parkland Unitholders will have limited say in matters affecting the operation of the business and, if such holders are in disagreement with the decisions of the Board of Directors, they will have limited recourse. The control exercised by the Board of Directors may make it more difficult for others to attempt to gain control or influence the activities of the operating entities.

Interest Rates

Most of Parkland's loans have floating rates and may be negatively impacted by increases in interest rates, the effect of which increases would be to reduce the amount of cash available for distributions. In addition, the market price of the Units at any given time may be affected by the level of interest rates prevailing at such time.

Government Legislation

Transportation fuel sales are taxed by the federal (GST and excise tax), provincial and, in some cases, municipal governments. Increases in taxes or changes in tax legislation are possible and could negatively affect demand, profitability or the attractiveness of the Fund structure as an investment.

Refinery Operating Permit

The refinery currently operates as a toll-based petrochemical processing site and fuel storage site. Parkland obtained a new permit in 2007 to allow for continued use or for alternative uses of the facility. The new permit expires in 2017.

If operations at the refinery are not continued Parkland may incur significant remediation costs.

Regional Economic Conditions

Parkland's revenues may be negatively influenced by changes in regional or local economic variables and consumer confidence. External factors that affect economic variables and consumer confidence and over which Parkland exercises no influence include unemployment rates, levels of personal disposable income and regional or economic conditions. Changes in economic conditions could adversely affect consumer spending patterns, travel and tourism in certain of Parkland's market areas. Some of our sites are located in markets which are more severely affected by weak economic conditions.

Risks Related to the Structure of the Fund

The following items refer to the structure of the Fund and the legal entities that are contained within this structure. The structure is described in greater detail in the Annual Information Form and the 2007 Information Circular. Parkland Income Fund (the "Fund") owns Parkland Income Trust (the "Trust") which in turn owns a portion of Parkland Holdings Limited Partnership ("Holdings LP"). The remainder of Holdings LP is held by investors through the Class B and Class C Limited Partnership Units referred to in note 8 of the financial statements. Holdings LP owns Parkland Industries Limited Partnership ("Industries LP") which conducts most of the business of the Fund. Holdings LP also owns Parkland Industries Ltd. (the "Administrator") which is the general partner of Industries LP, Parkland Refining Ltd. which holds the Bowden refinery assets, Joy Propane Ltd, United Petroleum Products Inc and Neufeld Petroleum and Propane Ltd.

Cash Distributions are Not Guaranteed and will Fluctuate with Performance of the Business

Although the Fund intends to distribute the interest and distributions income earned by the Fund, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Business and transferred indirectly to the Fund.

The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and the actual cash amounts distributed to the Fund, directly and indirectly, by the Trust, Holdings LP and Industries LP.

Capital Investment

The timing and amount of capital expenditures will directly affect the amount of cash available for distribution to Unitholders. Distributions may be substantially reduced at times when significant capital or other expenditures are made.

Nature of Units

Securities like the Units of Parkland are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trusts, Holdings LP, Industries LP or the Administrator and should not be viewed by investors as Trust Units, Trust Notes, Holdings LP Units, Industries Participating LP Units or Parkland Shares. As holders of Units of Parkland, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppressive" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets will be Trust Notes and Trust Units. The price per Unit is a function of anticipated Distributable Cash and other market factors.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of the Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unitholder Limited Liability

The Fund Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs or for any act or omission of the Trustee and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, each Unitholder's share of the Fund Assets as represented by the Unit certificates. The Fund Declaration of Trust further provides that all written instruments signed by or on behalf of the Fund shall contain a provision or be subject to an acknowledgment to the effect that such obligation will not be binding upon Unitholders personally and that such provision or acknowledgment shall be held in trust and enforced by the Trustee for the benefit of the Unitholders.

However, in conducting its affairs, the Fund will assume certain contractual obligations and may have to assume further obligations in the future. Although the Directors (or Trustee) will use reasonable efforts to have any contractual obligations modified so as not to have such obligations binding upon any of the Unitholders personally, they may not obtain such a modification in all cases. To the extent that any claims under such contracts are not satisfied by the Fund, there is a risk that a Unitholder will be held personally liable for obligations of the Fund where the liability is not disavowed as described above.

Notwithstanding the terms of the Fund Declaration of Trust, Unitholders may not be protected from liabilities of the Fund to the same extent as a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Fund (to the extent that claims are not satisfied by the Fund Assets) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The business of the Fund, the Trust, Holdings LP and Industries LP, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions so as to avoid, as far as possible, any material risk of liability to the Unitholders for claims against the Fund including obtaining appropriate insurance, where available, for the operations of the Fund and Industries LP and their subsidiaries and ensuring that all written agreements signed by or on behalf of the Fund include a provision that such obligations are not binding upon Unitholders personally. However, there can be no assurance that a Unitholder will not be subject to liability in the future.

Distribution of Securities on Redemption or Termination of the Fund

Upon redemption of Units or termination of the Fund, the Trustee may distribute the Fund Notes, Trust Notes, Trust Units or Holdings LP Units directly to the Unitholders, subject to obtaining any required regulatory approvals. Fund Notes, Trust Notes, Trust Units or Holdings LP Units so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans and other registered plans, depending upon the circumstances at the time.

The Fund may Issue Additional Units Diluting Existing Unitholders' Interests

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for the consideration and on those terms and conditions as are established by the Directors without the approval of any Unitholders. Additional Units will be issued by the Fund on the exchange of Rollover LP Units.

Restrictions on Potential Growth

The payout by Industries LP of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Industries LP and its cash flow.

Investment Eligibility and Foreign Property

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income trusts, registered education savings plans or other registered plans or that the Units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

Enactment of the Tax on Income Trusts

On June 12, 2007, the legislation ("Bill C-52") implementing the new tax on publicly traded income trusts and limited partnerships (the "SIFT tax"), referred to as "Specified investment flow-through" ("SIFT") entities received third reading in the House of Commons and on June 22, 2007, the Bill received Royal Assent. For SIFTs in existence on October 31, 2006 including Parkland, the SIFT tax will be effective in 2011 or earlier if certain rules related to "undue expansion" are not adhered to. Under the guidance provided, after the successful closing of Neufeld, Joy and UPPI, we can increase our equity by approximately $204 million between 2008 and 2011 without prematurely triggering the SIFT tax.

Under the SIFT tax, distributions from certain types of income will not be deductible for income tax purposes by SIFTs in 2011 and thereafter and any resultant trust level taxable income will be taxed at an approximate of the corporate income tax rate. The SIFT rate is currently 31.5 percent however on October 30, 2007, the Government of Canada, in its Mini-Budget, proposed changing the rate to 28.0 percent. Distributions from income subject to the SIFT tax will be considered taxable dividends to Unitholders, generally eligible for the dividend tax credit. As a result, the SIFT tax will not adversely affect Canadian investors who hold Parkland Units in a non-tax deferred account. Distributions representing a return of capital for income tax purposes will continue to be an adjustment to a Unitholder's adjusted cost base of Trust Units.

For accounting purposes, as the SIFT tax was enacted in the second quarter of 2007, Parkland recorded a one-time, non-cash charge to future income taxes of $7.5 million to reflect the current estimate of the temporary differences between the book and tax basis of assets and liabilities expected to be remaining in the Trust in 2011. This charge was reduced by $0.9 million in the third quarter as a result of adjustments made to the purchase price allocation of Neufeld.

Our Board of Directors and Management are continuously monitoring the impact of this tax on our business strategies. We expect future technical interpretations and details will further clarify the legislation. At the present time, Parkland believes some or all of the following actions will or could result in the future due to the SIFT tax:

- If structural or other similar changes are not made, the after-tax distribution yield in 2011 to taxable Canadian investors will remain approximately the same, however, the distribution yield in 2011 to tax deferred Canadian investors (RRSP's, RRIF's, pension plans, etc.) and foreign investors would fall by an estimated 31.5 [(1)] percent and 26.5 [(1)] percent, respectively;
- A portion of Parkland's cash flow could, as a result, be required for the payment of the SIFT tax, or other forms of tax, and would not be available for distribution or reinvestment;
- Parkland could convert to a corporate structure with yield in the form of dividends to facilitate investing a higher proportion or all of its cash flow in exploration and development projects. Such a conversion could result in the reduction, or the elimination, of the current distribution program in favour of higher capital investment and/or a dividend payment program;
- Parkland might determine that it is more economic to remain in the trust structure, at least for a period of time, and shelter its taxable income using tax pools and pay all or a portion of its distributions on a return of capital basis, likely at a lower payout ratio. Further, as the SIFT tax rate exceeds the corporate income tax rate that would be applicable to Parkland, the tax strategy might involve paying some corporate tax resulting in all or a portion of those distributions being paid on a return of capital basis at a lower payout ratio.

The Fund continues to review all organizational structures and alternatives to minimize the impact of the SIFT tax on our Unitholders. While there can be no assurance that the negative effect of the tax can be minimized or eliminated, Parkland and its advisors will continue to work diligently on these issues.

(1) *On October 30, 2007, the Government of Canada delivered its Mini-Budget outlining a number of corporate tax reductions over the next five years. The general corporate tax rate will fall to a proposed rate of 15 percent in 2012, a reduction of 3.5 percent. Any reduction eventually enacted will reduce the SIFT tax rate as it becomes effective in 2011, and lower the rate at which any corporate income taxes will be paid in Parkland's operating entities.*

Controls Environment

Management is responsible for the preparation and fair presentation of the consolidated financial statements. We have established disclosure controls and procedures, internal controls over financial reporting, and corporate-wide policies to provide that Parkland's consolidated financial position, results of operations and cash flows are presented fairly. Our disclosure controls and procedures are designed to ensure timely disclosure and communication of all material information required by regulators.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

Parkland, under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures pursuant to Multinational Instrument 52-109 "Certificate of Disclosure in Issuers' Annual and Interim Filings" as of the end of the period covered by this report. Based on the evaluations, it was concluded that our disclosure controls and procedures were effective as of December 31, 2007 to provide reasonable assurance that information required is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures include controls and procedures designed to provide reasonable assurances that information required to be disclosed in reports filed or submitted under applicable Canadian securities regulations is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

During 2007, Parkland conducted a review of the accounting system and internal controls environment at the acquired companies and concluded that there were no material weaknesses in the disclosure controls and procedures as at December 31, 2007. Parkland has determined that weaknesses exist relating to the lack of integration of the financial reporting systems and requirement for extensive manual interventions during the financial reporting process. Parkland has a plan to remediate these weaknesses over the coming months.

Parkland is currently undergoing extensive business process re-engineering and an upgrade of its enterprise resource planning ("ERP") software. The objectives of the project include the following:

- introduce best business practices, consistency and uniformity to its core business operations, controls and accounting processes;
- integrate all systems and processes of the business, including that of the acquired companies, into its ERP software; and
- complete the integration of the acquired companies by merging systems, processes, controls and operations.

Parkland has engaged external consultants who have experience in the fuel marketing industry and with our ERP software to assist management with this project. The Board of Directors and management are committed to this project and estimate completion of this project in late 2008.

Senior management has also committed to the creation of an Internal Auditor position which will report to the Chief Financial Officer. The Internal Auditor will be responsible for testing of the operational effectiveness of internal controls and procedures.

Parkland has a Disclosure Committee, consisting of three management members, that approves all items for public disclosure and also considers whether all items required to be disclosed are disclosed.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Parkland Income Fund have been prepared by management in accordance with generally accepted accounting principles. Parkland's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that Parkland is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

PricewaterhouseCoopers LLP have been appointed by the Unitholders of Parkland to serve as the Fund's external auditors. They have examined the financial statements of the Fund for the years ended December 31, 2007 and 2006.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the information contained in the financial statements of Parkland which are contained in this interim report.

Michael W. Chorlton
President and CEO

Red Deer, Alberta
February 25, 2008

John G. Schroeder
Vice President and CFO

Red Deer, Alberta
February 25, 2008

Auditors' Report

To the Unitholders of Parkland Income Fund

We have audited the consolidated balance sheets of Parkland Income Fund (the "Fund") as at December 31, 2007 and 2006 and the consolidated statements of earnings and other comprehensive income, accumulated other comprehensive income and retained earnings and cash flows for each of the years in the two year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

February 25, 2008

Consolidated Balance Sheet

($000's)	December 31 **2007**	December 31 2006
		(restated – see Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 6,296**	$ 36,462
Accounts receivable	**102,360**	40,294
Inventories *(Note 4)*	**48,476**	29,315
Prepaid expenses and other	**10,401**	3,874
	167,533	109,945
Capital assets *(Note 5)*	**179,952**	68,541
Intangible assets *(Note 6)*	**15,120**	–
Goodwill *(Note 7)*	**11,594**	–
Other long-term assets	**1,514**	1,499
Future income taxes	**–**	1,438
	$ 375,713	$ 181,423
LIABILITIES		
Current Liabilities		
Bank indebtedness *(Note 8)*	**$ 22,250**	$ –
Accounts payable and accrued liabilities	**85,311**	62,124
Distributions declared and payable	**22,175**	15,842
Income tax payable	**1,716**	459
Deferred revenue	**3,839**	–
Long-term debt – current portion *(Note 9)*	**4,101**	10,145
	139,392	88,570
Long-term debt *(Note 9)*	**14,392**	1,651
Refinery remediation accrual *(Note 10)*	**5,713**	3,038
Asset retirement obligations *(Note 11)*	**2,227**	1,140
Future income taxes *(Note 17)*	**5,284**	–
	167,008	94,399
UNITHOLDERS' CAPITAL *(Note 12)*		
Class B Limited Partners' Capital	**12,606**	14,331
Class C Limited Partners' Capital	**54,121**	–
Unitholders' Capital	**141,978**	72,693
	208,705	87,024
	$ 375,713	$ 181,423

James Pantelidis
Chairman of the Board

Michael W. Chorlton
President and CEO

Consolidated Statements of Earnings and Other Comprehensive Income, Accumulated Other Comprehensive Income and Retained Earnings

For the years ended *($000's except Unit and per Unit amounts)*	December 31 **2007**	December 31 2006
		(restated – see Note 2)
Net sales and operating revenue	**$ 1,697,663**	$ 1,199,866
Cost of sales	**1,465,155**	1,061,824
Gross profit	**232,508**	138,042
Expenses		
Operating and direct costs	**77,668**	47,342
Marketing, general and administrative	**39,846**	20,044
Amortization	**21,627**	8,453
Refinery remediation	**2,677**	–
Interest on long-term debt	**1,676**	1,044
Loss on disposal of capital assets	**275**	608
	143,769	77,491
Earnings before income taxes	**88,739**	60,551
Income tax expense *(Note 17)*		
Current	**1,280**	782
Future	**6,722**	193
	8,002	975
Net earnings	**80,737**	59,576
Other comprehensive income	**–**	–
Comprehensive income	**$ 80,737**	$ 59,576
Accumulated other comprehensive income, beginning of year	**$ –**	$ –
Comprehensive income	**–**	–
Accumulated other comprehensive income, end of year	**$ –**	$ –
Retained earnings, beginning of year	**$ –**	$ –
Change in accounting policy for restatement of inventory to FIFO *(Note 2)*	**–**	7,979
Allocation to Class B Limited Partners *(Note 12)*	**(14,339)**	(15,602)
Allocation to Class C Limited Partners *(Note 12)*	**(8,624)**	–
Allocation to Unitholders *(Note 12)*	**(57,774)**	(51,953)
Retained earnings, end of year	**$ –**	$ –
Net earnings per Unit *(Note 3)*		
– basic	**$ 1.66**	$ 1.50
– diluted	**$ 1.64**	$ 1.48
Units outstanding *(Note 12)*	**49,986**	38,580

Consolidated Statement of Cash Flows

For the years ended *($000's)*	December 31 **2007**	December 31 2006
		(restated – see Note 2)
Cash Provided By Operations		
Net earnings	**$ 80,737**	$ 59,576
Add (deduct) non-cash items		
Amortization	**21,627**	8,453
Loss on disposal of capital assets	**275**	608
Unit incentive compensation *(Note 12)*	**1,916**	341
Refinery remediation accrual *(Note 10)*	**2,677**	–
Accretion expense	**61**	60
Asset retirement obligation expenditures	**–**	(40)
Refinery remediation expenditures	**(2)**	–
Future taxes	**6,722**	193
Funds flow from operations	**114,013**	69,191
Net changes in non-cash working capital *(Note 20)*	**(31,177)**	1,057
Cash from operating activities	**82,836**	70,248
Financing Activities		
Long-term debt repayments	**(52,959)**	(4,815)
Distributions to Class B Limited Partners *(Note 12)*	**(15,998)**	(12,934)
Distributions to Class C Limited Partners *(Note 12)*	**(9,618)**	–
Distributions to Unitholders *(Note 12)*	**(44,443)**	(28,274)
Fund Units issued *(Note 12)*	**50,133**	2,235
Proceeds from long-term debt	**29,554**	–
Net changes in non-cash working capital *(Note 20)*	**28,583**	12,500
Cash used for financing activities	**(14,748)**	(31,288)
Investing Activities		
Acquisition of Neufeld Petroleum *(Note 13)*	**(47,610)**	–
Acquisition of Joy Propane Ltd. *(Note 14)*	**(9,872)**	–
Acquisition of United Petroleum Products *(Note 15)*	**(10,425)**	–
Acquisition of Roblyn Bulk Sales Ltd. *(Note 16)*	**(2,491)**	–
Recovery in other assets	**(15)**	360
Purchase of capital assets	**(28,924)**	(12,846)
Proceeds on sale of capital assets	**1,083**	1,698
Cash used for investing activities	**(98,254)**	(10,788)
(Decrease) increase in cash	**(30,166)**	28,172
Cash and cash equivalents, beginning of year	**36,462**	8,290
Cash and cash equivalents, end of year	**$ 6,296**	$ 36,462

Notes to Consolidated Financial Statements

December 31, 2007
Dollar and Unit amounts presented in tables are in thousands, except per Unit and text information.

1. ACCOUNTING POLICIES

Basis of Presentation

Parkland Income Fund (the “Fund” or “Parkland”) is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience store and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership (“LP Units”), a limited partnership controlled by the Fund.

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly-owned subsidiaries, partnerships and trusts. All significant accounts and transactions between consolidated entities are eliminated.

The LP Units are, to the greatest extent possible, the economic equivalent to a Unit in the Fund. The Class B LP Units had a call feature which would have resulted in their conversion to Trust Units in June 2008 resulting in an income tax obligation to the holders. At a meeting of Class B LP Unitholders on June 22, 2007 this call feature was deferred to June 30, 2011. In certain circumstances the Fund may compel the exchange of the LP Units. As such, the LP Units, including both Class B and Class C Units, are treated as being equivalent to Fund Units.

Use of Estimates

The preparation of the financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

Estimates are used when accounting for items such as allowance for doubtful accounts, asset retirement obligations, the refinery remediation accrual, amortization and income taxes. These estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

Inventories

The Fund values its inventories at the lower of cost and market value. The Fund uses the first-in first-out (FIFO) method of determining the cost of inventory.

Goodwill

The Fund must record goodwill relating to a corporate acquisition when the total purchase price exceeds the fair value for accounting purposes of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year-end or as events occur that could result in an impairment. Impairment is recognized based on the fair value of the reporting entity compared to the book value of the reporting entity. If the fair value of the Fund is less than the book value, impairment is measured by allocating the fair value of the Fund to the identifiable assets and liabilities as if the Fund has been acquired in a business combination for a purchase price equal to its fair value. Any excess of the book value of goodwill over the implied value of goodwill is the impairment amount. Impairment is charged to earnings and is not tax affected, in the year in which it occurs. Goodwill is stated at cost less impairment and is not amortized.

Amortization

Amortization is provided for on a straight-line basis over the estimated useful lives of assets at the following annual rates:

Land improvements	4 percent
Buildings	5 percent
Equipment	10 - 20 percent
Assets under capital lease	10 - 20 percent

Intangible Assets

Customer relationships and tradenames acquired during acquisitions are recorded at estimated fair value and will be amortized using the straight-line method over their estimated useful lives of 5 years. The value of non-compete agreements acquired was recorded at estimated fair value and will be amortized using the straight-line method over the term of the agreement. Intangible assets are tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to cover its carrying value.

Deferred Revenue

Deferred revenue consists of deposits and prepayments by customers for the purchase of product not yet delivered and not recorded as revenue by the Fund.

Income Taxes

Income earned directly by the Limited Partnership is not subject to income taxes as its income is taxed directly to the Limited Partnership Unitholders. Income earned in the Fund and distributed to the Fund Unitholders is taxed directly to the Fund Unitholders. Income taxes incurred by taxable entities controlled by the Fund are accounted for using the future method. Under this method, the Fund recognizes a future tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow. Similarly, the Fund recognizes a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions.

Asset Retirement Obligations

The estimated future costs to remove underground fuel storage tanks at locations where the Fund has a legal obligation to remove these tanks are recorded as Asset Retirement Obligations at the time the tanks are installed. A corresponding increase to the carrying value of the fuel storage tanks is also recorded at installation. The Fund recognizes accretion expense in connection with the discounted retirement obligations and amortization in connection with the increase in carrying value over the estimated remaining life of the respective underground fuel storage tanks.

Long-Term Debt

Capital lease obligations, which relate to transactions which are similar in nature to a purchase, are capitalized and included in long-term debt.

Earnings Per Unit

Basic earnings per Unit are calculated on the weighted average number of Units outstanding for the period. Diluted earnings per Unit are calculated by application of the Treasury Stock Method. Under this method, the diluted number of Units are calculated based upon the weighted average number of Units outstanding for the period plus the dilutive effect of the exercise of those employee options which were “in-the-money” during the period. Special distributions to Unitholders in the form of additional Units are recorded at the declaration date. The computation of earnings per Unit for prior years are retroactively restated to reflect the change in Units as a result of special distributions in the form of new Units issued.

Revenue

The Fund recognizes revenue on its sale of goods when title passes to the purchaser or when services are rendered.

Grants of Options and Restricted Units

The Fund accounts for its grants of options and restricted Units in accordance with the fair value based method of accounting for stock-based compensation.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

Prior Year Numbers

Certain prior year numbers have been restated to conform with current year presentation.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections 1530 "Comprehensive Income", section 3251 "Equity" and section 3855 "Financial Instruments - Recognition and Measurement". These standards result in changes in the accounting for financial instruments as well as introduction of accumulated other comprehensive income as a separate component of Unitholders' capital. As required, these standards have been adopted prospectively and comparative amounts for the prior periods have not been restated.

Comprehensive Income

Comprehensive income is comprised of net earnings or loss and other comprehensive income ("OCI"). OCI represents the change in capital for a period that arises from, among other things, unrealized gains and losses on available for sale securities and changes in the fair value of derivative instruments designated as cash flow hedges. The Fund does not currently have any OCI.

Equity

This section establishes the standards for presentation of capital and changes in capital during the period. It requires separate presentation of changes in Unitholders' capital for the period arising from net income, OCI, contributed surplus, retained earnings, Unitholders' capital and reserves. Accumulated OCI would be included in the consolidated balance sheet as a separate component of Unitholders' capital.

Financial Instruments

This section establishes standards for the recognition and measurement of financial instruments which is comprised of: financial assets, financial liabilities, derivatives and non-financial derivatives.

A financial asset is cash or a contractual right to receive cash or another financial asset, including equity, from another party. A financial liability is the contractual obligation to deliver cash or another financial asset to another party.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date. An embedded derivative is a derivative that is a part of a non-derivative contract and not directly related to that contract. Under this standard, embedded derivatives must be accounted for as a separate financial instrument. A non-financial derivative is a contract that can be settled net in cash or another financial instrument.

Under this standard, all financial instruments are initially recorded at fair value and are subsequently accounted for based on one of four classifications: held for trading, held-to-maturity, loans and receivables and other financial liabilities or available-for-sale. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired. Fair values are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models.

i) Held for trading

Held for trading financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. A derivative is classified as held for trading, unless designated as and considered an effective hedge. Held for trading instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value recorded directly into earnings.

All of the Fund's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and distributions declared and payable are designated as held for trading and are recorded at fair value.

ii) Held-to-maturity

Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity that the Fund has the intent and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are recorded directly into earnings.

The Fund has not designated any financial instruments as held-to-maturity.

iii) Loans and receivables and other financial liabilities

Loans and receivables and other financial liabilities are accounted for at amortized cost using the effective interest method of amortization.

The fair value of other assets and long-term debt approximate their carrying values due to their floating interest rates.

iv) Available-for-sale

Available-for-sale assets are those assets that are not classified as held for trading, held-to-maturity or loans and receivables. Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value is recorded in OCI and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is transferred into earnings.

The Fund has not designated any financial instruments as available-for-sale.

The methods used by the Fund in determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

Under this standard, all guarantees upon inception are required to be recognized on the balance sheet at their fair value. No subsequent re-measurement is required to fair value each guarantee at each subsequent balance sheet date unless the guarantee is considered a derivative.

Inventories

In June 2007, Canada's Accounting Standards Board (AcSB) issued CICA Handbook Section 3031, Inventories. This new standard provides considerable guidance when determining the cost of inventory. Where costs of inventory items cannot be specifically identified, costs must be assigned consistently on either a "first-in, first-out" (FIFO) or weighted average cost basis. A "last-in first-out" (LIFO) cost basis is no longer acceptable. The standard is effective for fiscal periods beginning on or after January 1, 2008. The Fund early adopted this standard effective January 1, 2007 and applied it retrospectively.

As a result of the early adoption of CICA Handbook Section 3031 Inventories and its retrospective application, the Fund recorded the following adjustments to the financial statements: Inventories increased $13.2 million (2006 – $9.0 million), Cost of Sales decreased $4.2 million (2006 – $1.0 million), Net Earnings increased $3.2 million (2006 – $0.8 million) and Unitholders' Capital increased $13.2 million (2006 – $9.0 million). Unitholders' Capital and Inventories at January 1, 2006 were increased by $8.0 million to reflect the impact of this change in accounting policy in prior years. The change in accounting policy increased Net Earnings Per Unit – Basic and Net Earnings Per Unit – Diluted by $0.07 (2006 – $0.03 and $0.02 respectively).

3. EARNINGS ANALYSIS AND EARNINGS PER UNIT

	2007	2006 *(restated – see Note 2)*
Net earnings	**$ 80,737**	$ 59,576
Earnings per Unit		
– basic	**$ 1.66**	$ 1.50
– diluted	**$ 1.64**	$ 1.48
Equivalent Units outstanding, beginning of year	**39,858**	39,456
Weighted average of Class C Units issue	**4,960**	–
Weighted average of Fund Units issued	**3,801**	–
Weighted average of equivalent Units issued pursuant to restricted Unit plan	**26**	–
Weighted average of equivalent Units issued pursuant to distribution reinvestment plan	**27**	45
Weighted average of equivalent Units issued pursuant to exercise of Unit options	**163**	249
Denominator utilized in basic earnings per Unit	**48,835**	39,750
Incremental equivalent Units outstanding that were dilutive	**460**	415
Denominator utilized in diluted earnings per Unit	**49,295**	40,165

Equivalent Units outstanding at January 1, 2006 and January 1, 2007 have been restated for the retroactive change resulting from the special distribution of Units on December 31, 2007 and December 31, 2006 as well as for the three-for-one split on May 25, 2007.

4. INVENTORIES

	2007	2006 *(restated – see Note 2)*
Gas and diesel	**$ 33,241**	$ 25,358
Agricultural inputs	**4,624**	–
Convenience store merchandise	**4,448**	3,855
Lubricants	**2,749**	–
Propane	**2,297**	–
Other	**1,117**	102
	$ 48,476	$ 29,315

5. CAPITAL ASSETS

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
Land	**$ 26,035**	**$ –**	**$ 26,035**
Land improvements	**9,572**	**2,666**	**6,906**
Buildings	**42,927**	**12,206**	**30,721**
Assets under capital lease	**15,554**	**9,547**	**6,007**
Equipment	**156,207**	**45,924**	**110,283**
	$ 250,295	**$ 70,343**	**$ 179,952**
December 31, 2006			
Land	$ 13,069	$ –	$ 13,069
Land improvements	6,940	2,278	4,662
Buildings	24,738	10,530	14,208
Assets under capital lease	14,038	7,996	6,042
Equipment	63,420	32,860	30,560
	$ 122,205	$ 53,664	$ 68,541

6. INTANGIBLE ASSETS

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
Customer relationships	**$ 11,649**	**$ 1,724**	**$ 9,925**
Tradenames	**4,966**	**836**	**4,130**
Non-compete agreements	**1,146**	**81**	**1,065**
	$ 17,761	**$ 2,641**	**$ 15,120**

7. GOODWILL

Goodwill arose through acquisitions described in Notes 14 and 15.

8. BANK INDEBTEDNESS

On August 1, 2007, the Fund entered into a credit agreement with a syndicate of banks which included a revolving operating facility for working capital requirements to a maximum of $32 million (2006 – $32 million) and subject to margin calculations. The operating facility bears interest at the Prime Rate Advance Rate, a rate determined as the Bank's prime rate plus a percentage according to the ratio of funded debt to Earnings Before Interest on Long-Term Debt, Income Tax Expense, Amortization of Capital Assets, Refinery Remediation Accrual and Loss on Disposal of Capital Assets. The effective rate of interest at December 31, 2007 was 6.0 percent.

9. LONG-TERM DEBT

	2007	2006
Bank loans	**$ 310**	$ –
Term loan	**14,167**	–
Mortgage payable	**248**	272
Capital lease obligations	**3,768**	4,529
Mortgages repaid during the year	**–**	2,959
Bank loans repaid during the year	**–**	4,036
	18,493	11,796
Less current portion	**4,101**	10,145
	$ 14,392	$ 1,651

Estimated repayments for the next 5 years are:

	Obligations Under Capital Leases	Other Loans
2008	$ 1,486	$ 2,615
2009	450	2,583
2010	388	2,565
2011	265	2,543
2012	265	2,504
Thereafter	2,376	1,915
	5,230	14,725
Interest expense included in minimum lease payments	1,462	–
	$ 3,768	$ 14,725

Bank Loans

Bank loans are payable in monthly instalments of $13,189 (2006 – $103,768) plus interest ranging from nil to six percent (2006 – 6.35 percent). The bank loans are secured by vehicles with a net book value of $346,233.

Term Loan

The term loan is repayable in monthly payments of $208,333 plus interest at the Prime Rate Advance Rate. The effective rate of interest at December 31, 2007 was 6.0 percent (2006 – 6.5 percent). The loan is due in August 2013. The obligations under the credit agreement are secured by a a mortgage over the Fund's real property, assignment of insurance and an unlimited guarantee from the secured entities.

Mortgage Payable

The mortgage payable is repayable in monthly instalments of $3,368 (2006 – $122,346) including interest at 6.25 percent (2006 – 6.7 to 6.8 percent). The mortgage is secured by real property with a net book value of $1,122,452 (2006 – $8,907,000) and matures in October 2008.

Capital Lease Obligations

Capital lease obligations are payable in monthly instalments totalling $197,305 including interest varying from 0 percent to 16.34 percent and prime plus 0.35 percent per annum. The effective rate of interest at year end for the prime based lease was 6.35 percent (2006 – 6.35 percent). The capital lease obligations are for land, buildings and equipment with a net book value of $5,826,677 and mature at various dates ending September 2022.

See Note 24 – Subsequent Events.

10. REFINERY REMEDIATION ACCRUAL

In December 2004, the Fund eliminated the carrying value of its Bowden refinery and recorded a net liability of $3.4 million for future estimated costs of remediation of the site, net of salvage value, based on the uncertainty of creating an alternative to the refinery being dismantled, remediated and sold for salvage values. The Refinery Remediation Accrual represents the present value estimate of the Fund's cost to remediate the site. $0.4 million of remediation costs incurred in 2006 were charged against the accrual.

During 2006, the Fund entered into a custom processing agreement to toll produce fluids used in the oilfields. The commercial agreement utilized a portion of the processing units at the refinery. The Fund is continuing to pursue other economically viable uses for the remaining processing units at the refinery and therefore any decision to dismantle, remediate and sell the refinery site has been deferred indefinitely. The Fund renewed its refinery operating license in 2007 and fully intends to maximize the revenue generating potential of this facility. The obligations relating to future environmental remediation, however, continue to exist.

Assuming the Fund continues operations at the refinery, remediation for any potential environmental liabilities associated with a complete dismantling of the site would be delayed indefinitely. The Fund has estimated the discounted cost of remediation on the basis that operations continue and that remediation would be part of a multi year management plan. Remediation costs have been estimated from independent engineering studies conducted in December 2007. The total undiscounted estimated future cash flows, to be incurred over an extended period after operations cease, are approximately $13.8 million net of salvage value of equipment and will be accreted. Discounting these incremental cash flows resulted in a $2.7 million increase in the refinery remediation accrual at December 31, 2007. The costs are expected to be incurred between 2018 and 2027. The discount rate used to determine the present value of the future costs is 6.9 percent (2006 – 6.9 percent).

11. ASSET RETIREMENT OBLIGATIONS

A reconciliation of the Fund's estimated liability for the removal of its underground storage tanks is as follows:

	2007	2006
Asset retirement obligations, beginning of year	**$ 1,140**	$ 1,120
Additions during the year	**70**	–
Expenditures during the year	**–**	(40)
Change in estimates	**956**	–
Accretion expense	**61**	60
Asset retirement obligations, end of year	**$ 2,227**	$ 1,140

The Fund is liable for the environmental obligations related to the removal of its underground storage tanks at properties that it leases. The Asset Retirement Obligation represents the present value estimate of the Fund's cost to remove these tanks. The total undiscounted estimated future cash flows required to settle the Fund's obligation increased to $3.2 million (2006 – $1.5 million), which primarily reflects the Fund's estimate of increased costs and inflation. Discounting these incremental cash flows resulted in a $1.0 million increase in the asset retirement obligation at December 31, 2007. The costs are expected to be incurred between 2007 and 2019. The discount rate used to determine the present value of the future costs is 6.9 percent (2006 – 6.9 percent).

12. UNITHOLDERS' CAPITAL

An unlimited number of Fund Units and LP Units may be created and issued, pursuant to the Fund Declaration of Trust and the Amended and Restated Limited Partnership Agreement, respectively, as outlined in the Plan of Arrangement.

Fund Units represent an undivided interest in the Fund. LP Units represent a partnership interest in Parkland Holdings Limited Partnership and are exchangeable on a one-for-one basis into Fund Units. Both Fund Unitholders and LP Unitholders are entitled to vote at meetings of the Fund and are entitled to distributions from time to time as determined by the Board of Directors.

	2007		2006	
	Number of Units	Amount	Number of Units	Amount
			(restated – see Note 2)	
Class B Limited Partnership Units				
Balance, beginning of year	**8,566**	**$ 14,331**	8,724	$ 13,055
Adjustment to beginning retained earnings	**–**	**–**	–	1,793
Adjusted balance, beginning of year	**8,566**	**14,331**	8,724	14,848
Allocation of retained earnings	**–**	**14,339**	–	13,581
Additional allocation of retained earnings	**–**	**–**	–	228
Distribution to partners	**–**	**(15,998)**	–	(12,934)
Exchanged for Fund Units	**(32)**	**(66)**	(158)	(1,392)
Balance, end of year	**8,534**	**$ 12,606**	8,566	$ 14,331
Class C Limited Partnership Units				
Balance, beginning of period	**–**	**$ –**	–	$ –
Adjustment to beginning retained earnings	**–**	**–**	–	–
Adjusted balance, beginning of year	**–**	**–**	–	–
Issued on capital acquisition, net of issue costs	**5,519**	**58,954**	–	–
Allocation of retained earnings	**–**	**8,624**	–	–
Additional allocation of retained earnings	**–**	**–**	–	–
Exchanged for Fund Units	**(354)**	**(3,839)**	–	–
Distribution to partners	**–**	**(9,618)**	–	–
Balance, end of period	**5,165**	**$ 54,121**	–	$ –
Fund Units				
Balance, beginning of year	**30,014**	**$ 72,693**	28,288	$ 45,046
Adjustment to beginning retained earnings	**–**	**–**	–	6,186
Adjusted balance, beginning of year	**30,014**	**72,693**	28,288	51,232
Allocation of retained earnings	**–**	**57,774**	–	45,010
Additional allocation of retained earnings	**–**	**–**	–	757
Issued on vesting of restricted Units	**26**	**–**	–	–
Unit incentive compensation	**–**	**1,916**	–	341
Issued for cash, net of issue costs	**4,080**	**47,037**	–	–
Issued under distribution reinvestment plan	**44**	**636**	63	491
Issued under Unit option plan	**462**	**2,460**	339	1,744
To be issued to Unitholders pursuant to special distribution	**1,275**	**20,459**	1,165	14,963
Distribution to Unitholders	**–**	**(64,902)**	–	(43,237)
Exchange of Limited Partnership Units	**386**	**3,905**	159	1,392
Balance, end of year	**36,287**	**$ 141,978**	30,014	$ 72,693
	49,986	**$ 208,705**	38,580	$ 87,024

On May 4, 2007 the Directors passed a resolution authorizing the Fund to provide for a division of its Units on a three-for-one Unit basis. The Unit split did not change the rights of the holders of Units and each Unit outstanding after the split is entitled to one vote. These financial statements have been adjusted retroactively for the three-for-one split. Of the 5.519 million Class C Limited Partnership Units issued, 4.697 million Units are subject to escrow provisions under which one third will be released in each of the three years from January 25, 2007.

Unit Option Plan

The Fund has a Unit Option Plan under which the Fund may grant up to 3,600,000 Unit options to directors, officers, employees and consultants. The maximum number of options is reduced by the number of Units allocated to the Restricted Unit Plan. The Unit options have a 10-year term and, with limited exceptions, vest proportionally over the first three anniversary dates following the grant.

The table below represents the status of the Fund's Unit Option Plan as at December 31, 2007 and 2006 and the changes therein for the years then ended:

	2007		2006	
	Number of Unit Options	Weighted Average Exercise Price	Number of Unit Options	Weighted Average Exercise Price
Option Units, beginning of year	**1,228**	**$ 6.20**	1,650	$ 6.03
Cancelled	**–**	**–**	(84)	7.01
Exercised	**(449)**	**5.50**	(338)	5.18
Option Units, end of year	**779**	**$ 6.60**	1,228	$ 6.20
Exercisable options, end of year	**589**	**$ 6.43**	813	$ 5.58

Exercise prices for outstanding options at December 31, 2007 have the following ranges: 97,875 from $4.15 – $5.87, 196,908 from $6.32 – $6.68 and 484,019 from $6.73 – $7.27. These issue prices represent the market value at the time of issue. The corresponding remaining contractual life for these options range from 5 – 8 years.

The Fund accounts for its grants of options using the fair value based method of accounting for stock-based compensation. The total cost to be reported is $0.4 million (2006 – $0.5 million). The compensation cost that has been included in marketing, general and administrative expenses is $0.2 million (2006 – $0.2 million).

The fair value of the options granted is estimated using the Black-Scholes options pricing model on the basis of the following assumptions:

Expected average annual distribution	$ 1.80
Expected average volatility	20 percent
Weighted average risk-free interest rate	3.25 percent
Expected life	3 years

Restricted Unit Plan

Effective January 1, 2006, the Fund adopted a Restricted Unit Plan to complement the Unit Option Plan. Under the Plan the Units granted in 2006 vest over a five year period and the Units issued in 2007 vest over a three year period. The Units are subject to entity performance criteria.

The table below represents the status of the Fund's Restricted Unit Plan as at December 31, 2007 and the changes therein for the year then ended:

	2007		2006	
	Number of Units *(000's)*	Weighted Average Unit Price	Number of Units *(000's)*	Weighted Average Unit Price
Restricted Units, beginning of year	**131**	**$ 6.60**	–	$ –
Granted	**191**	**12.83**	137	6.60
Issued	**(26)**	**6.60**	–	–
Cancelled	**(2)**	**12.38**	(6)	6.55
Restricted Units, end of year	**294**	**$ 10.62**	131	$ 6.60

The Fund accounts for its grants of restricted Units over the graded vesting schedule of each grant. Each grant of restricted Units is treated as if the grant were a series of awards rather than a single award. The fair value of the award is determined based on the different expected lives for the restricted Units that vest each year. The total cost to be reported for 2007 is $2.4 million (2006 – $0.8 million). The compensation cost that has been included in marketing, general and administrative expenses for 2007 grants is $1.8 million ($0.2 million for 2006).

13. ACQUISITION OF NEUFELD PETROLEUM AND PROPANE LTD. AND NEUFELD HOLDINGS LTD.

On January 24, 2007, the Fund acquired all of the outstanding shares of Neufeld Petroleum & Propane Ltd. and Neufeld Holdings Ltd. ("Neufeld Petroleum"). The transaction was accounted for using the purchase method with the allocation of the purchase price as follows:

	($000's)
Estimated fair value of net assets acquired:	
Capital assets	**$ 87,905.2**
Working capital, net *(excluding bank indebtedness)*	**24,750.0**
Intangible asset – customer relationships	**6,264.1**
Intangible asset – tradenames	**4,581.2**
Intangible asset – non compete agreement	**561.0**
	$ 124,061.5
Consideration:	
Cash paid to vendor	**$ 23,468.0**
Class C Limited Partnership Units	**47,620.1**
Acquisition costs	**1,982.5**
Bank indebtedness assumed	**2,137.8**
Shareholder loans paid out	**17,828.0**
Management bonus paid out	**4,331.1**
Long-term debt assumed	**26,694.0**
	$ 124,061.5

The effective date of the transaction was November 1, 2006. The interim period net earnings after tax to January 24, 2007 of $3 million have been credited to the purchase price.

14. ACQUISITION OF JOY PROPANE LTD.

On April 24, 2007, the Fund acquired all of the outstanding shares of Joy Propane Ltd. The transaction was accounted for using the purchase method with the allocation of the purchase price as follows:

		($000's)
Estimated fair value of net assets acquired:		
Capital assets	$	**9,716.7**
Working capital, other		**1,056.0**
Cash		**1,414.0**
Goodwill		**4,488.9**
		16,675.6
Consideration:		
Cash paid to vendor		**11,201.5**
Acquisition costs		**84.6**
Class C Limited Partnership Units		**5,389.5**
	$	**16,675.6**

The effective date of the transaction was February 28, 2007. The interim period net earnings after tax to April 24, 2007 of $168,500 have been credited to the purchase price. There is no tax basis on the goodwill. Goodwill relates to the Fuel Marketing segment.

15. ACQUISITION OF UNITED PETROLEUM PRODUCTS INC.

On May 28, 2007, the Fund acquired all of the outstanding shares of United Petroleum Products Inc. The transaction was accounted for using the purchase method with the allocation of the purchase price as follows:

		($000's)
Estimated fair value of net assets acquired:		
Capital assets	$	**2,538.4**
Working capital, net		**2,240.6**
Intangible asset – customer relationships		**5,000.0**
Intangible asset – non compete agreement		**200.0**
Goodwill		**7,105.4**
	$	**17,084.4**
Consideration:		
Cash paid to vendor	$	**10,382.9**
Acquisition costs		**41.7**
Class C Limited Partnership Units		**5,944.7**
Bank debt assumed		**715.1**
	$	**17,084.4**

The effective date of the transaction was May 1, 2007. The interim period net earnings after tax to May 28, 2007 of $247,000 have been credited to the purchase price. There is no tax basis on the goodwill. Goodwill relates to the Fuel Marketing segment.

16. ACQUISITION OF ROBLYN BULK SALES LTD.

On December 3, 2007, the Fund acquired all of the outstanding shares of Roblyn Bulk Sales Ltd., a distributor of bulk fuels located in Edson, Alberta. The transaction was accounted for using the purchase method with the allocation of the purchase price as follows:

	($000's)
Estimated fair value of net assets acquired:	
Capital assets	**$ 1,645.0**
Working capital	**246.3**
Intangible asset – customer relationships	**385.0**
Intangible asset – tradenames	**385.0**
Intangible asset – non compete agreement	**385.0**
	3,046.3
Consideration:	
Cash paid to vendor	**2,491.0**
Long-term debt assumed	**555.3**
	$ 3,046.3

17. INCOME TAXES

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to earnings before provision for income taxes as shown in the following table:

	2007		2006	
		%		%
Provision for income taxes at statutory rates	**$ 28,876**	**32.54**	$ 19,673	32.49
Add (deduct) the tax effect of:				
Income earned in limited partnership	**(29,228)**	**(32.94)**	(18,560)	(30.65)
Effect of taxation of Trusts in 2011	**7,717**	**8.69**	–	–
Large corporation/capital taxes	**50**	**0.06**	89	0.15
Other	**587**	**0.66**	(227)	(0.37)
	$ 8,002	**9.01**	$ 975	1.62

The net future income tax liability is comprised of:

	2007	2006
Future income tax liabilities		
Capital assets carrying value in excess of tax values	**$ 248**	$ –
Effect of taxation of Trusts in 2011	**7,252**	–
Effect of LIFO to FIFO inventory adjustment	**2,017**	–
Future income tax assets		
Capital assets tax values in excess of carrying values	**(2,805)**	–
Refinery remediation	**(1,428)**	(1,438)
Net future income tax liability (asset)	**$ 5,284**	$ (1,438)

On June 12, 2007, the new Trust taxation rules previously announced by the government on October 31, 2006 became substantively enacted. As a result, the future income tax payable and corresponding future income tax expense on the Trust's temporary differences between the accounting basis and the tax basis of its assets and liabilities was recorded in the second quarter of 2007, which totalled $7.5 million. During 2007, the federal government substantively enacted various tax rate reductions, which lowered the corporate tax rates for the years 2008 to 2012 and beyond. The corporate tax rates were reduced from 20.5% in 2008 to an ultimate rate of 15% in 2012 and future years. These federal rate reductions also reduce the taxation rate applicable to trusts from 31.5% to 29.5% starting in 2011 and to 28% in 2012 and beyond. The Fund applied these rate reductions to its future income tax calculations in 2007, resulting in a total future income tax expense of approximately $7.3 million after adjusting for final changes in the third quarter to the purchase price allocation of the acquired companies.

18. COMMITMENTS

The Fund has contracted obligations under various debt agreements as well as under operating and capital leases for land, building and equipment. Minimum operating lease payments under the existing terms for each of the five succeeding years are as follows:

2008	$ 2,404
2009	$ 1,586
2010	$ 955
2011	$ 490
2012	$ 315
Thereafter	$ 577

The Fund has outstanding letters of credit totalling $25.1 million (2006 – $24.7 million) which mature at various dates to October 31, 2008. The Fund's credit facility provides for letters of credit to a maximum of $30.0 million, subject to margin calculations.

The Fund also has purchase commitments under its fuel supply contracts that require the purchase of approximately 1.9 billion litres of fuel products at variable costs over the next year.

19. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, tax payable, distributions payable, bank indebtedness, deferred revenue and accounts payable and accrued liabilities are equal to their carrying values due to their short-term maturities. The fair value of the term loan and operating line of credit equal their carrying values as their interest rates fluctuate with the prime lending rate. The carrying values and fair values of mortgages payable, bank loans, capital lease obligations and mortgages and loans receivable are as follows:

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages payable	**$ 248**	**$ 250**	$ 3,238	$ 3,228
Bank loans	**$ 310**	**$ 307**	$ –	$ –
Capital lease obligations	**$ 3,768**	**$ 4,197**	$ 4,529	$ 4,575
Mortgages and loans receivable	**$ 1,119**	**$ 1,170**	$ 1,393	$ 1,495

Fair value of mortgages payable, bank loans, mortgages and loans receivable and capital lease obligations are estimated using discounted cash flow analysis based upon incremental borrowing rates for similar borrowing arrangements.

The Fund does not have a significant credit exposure to any individual customer. The Fund reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.

Mortgages and loans receivable are receivable in monthly instalments of $38,310 (2006 – $38,787), bear interest at rates ranging between nil and 11 percent (2006 – nil and 13 percent) and are secured by specific assets of the mortgage.

20. NET CHANGES IN NON-CASH WORKING CAPITAL

	2007	2006 (restated – Note 2)
Accounts receivable	**$ (18,646)**	$ (6,041)
Inventories	**(7,926)**	(2,374)
Prepaid expenses and other	**(6,376)**	(2,304)
Accounts payable	**(55)**	12,455
Income taxes payable	**(1,871)**	(679)
Deferred revenue	**3,697**	–
Subtotal for operating activities	**$ (31,177)**	$ 1,057
Operating line of credit	**$ 22,250**	$ –
Distributions declared and payable	**6,333**	12,500
Subtotal for financing activities	**$ 28,583**	$ 12,500
Other cash flow information		
Cash taxes paid	**$ 2,802**	$ 1,461
Cash interest paid	**$ 1,676**	$ 1,044

21. SEGMENTED INFORMATION

The Fund's operations have been predominantly in fuel marketing and convenience store sales in western Canada. With the acquisitions in 2007, the Fund now sells propane, fertilizer, lubes, other agricultural inputs and industrial products and services. The Fund's operating segments have been adjusted to reflect these changes.

Fuel Marketing includes sales of gasoline, diesel, heating oil, propane fuel and variable rents derived from service station sites. Convenience Store Merchandise continues to include the operations of the Fund owned and operated convenience stores that are integrated into fuel marketing sites and bear common operating costs. Commercial includes primarily the non-fuel components of the acquired businesses as noted in the previous paragraph.

Due to the amount of common operating and property costs it is not practical to report these segments below their respective gross profits. The segregation of capital expenditures and total assets is not practical as the reportable segments represent product sales that are generated from common locations.

	Fuel Marketing	Convenience Store Merchandise	Commercial	Total
Year ended December 31, 2007				
Net sales and operating revenue	**$ 1,558,220**	**$ 64,538**	**$ 74,905**	**$ 1,697,663**
Cost of sales	**1,370,257**	**48,154**	**46,744**	**1,465,155**
Gross profit	**$ 187,963**	**$ 16,384**	**$ 28,161**	**$ 232,508**
Year ended December 31, 2006 *(restated – see Note 2)*				
Net sales and operating revenue	$ 1,140,242	$ 59,624	$ –	$ 1,199,866
Cost of sales	1,017,707	44,117	–	1,061,824
Gross profit	$ 122,535	$ 15,507	$ –	$ 138,042

22. RELATED PARTY TRANSACTIONS

During 2007, Parkland paid $0.7 million (2006 – $0.4 million) for legal services to Bennett Jones LLP where David Spencer, a Parkland director, is a partner. The majority of services received related to documentation for the acquisitions and a new credit facility.

Parkland provides management, labour, accounting and delivery services to Neufeld Petroleum and Propane (High Level) Ltd. (NPPHL). NPPHL is owned by Abe Neufeld, Parkland's Vice President, Commercial Business Development and consists of a small scale Petro-Canada bulk fuel agency in High Level, Alberta. The services are provided by Parkland on a cost recovery basis and totaled $0.5 million during the year.

Parkland also sells fuel and related products to NPPHL. The total amount of sales during 2007 was $0.3 million. In addition, Parkland received rental income totalling $0.4 million from NPPHL.

The above transactions are all in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The exchange amounts represent normal commercial terms.

23. RECENT ACCOUNTING PRONOUNCEMENTS

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535 "Capital Disclosures", section 3862 "Financial Instruments – Disclosures" and section 3863 "Financial Instruments – Presentation". Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861 "Financial Instruments – Disclosure and Presentation", revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007. The Fund will begin application of these sections effective January 1, 2008.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategy to apply IFRSs to publicly accountable enterprises in the future. In May 2007, the AcSB published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the AcSB will need to make as it implements the Strategic Plan for publicly accountable enterprises. One step in the implementation plan is for the AcSB to conduct a Progress Review to determine if the changeover date to IFRSs for fiscal years beginning on or after January 1, 2011 continues to be appropriate. The AcSB has commenced these activities and published its initial plan "Progress Review – Steps to IFRS Incorporation into Canadian GAAP" in July 2007.

On February 13, 2008, the AcSB confirmed the transition date of January 1, 2011. The transition date of January 1, 2011, will require the Fund to restate for comparative purposes amounts reported for the year ended December 31, 2010. The Fund is still investigating the impact of the adoption of IFRSs on its financial statements.

24. SUBSEQUENT EVENTS

Long-Term Debt

On February 13, 2008, the Fund accepted the terms and conditions of a financing arrangement with HSBC Bank Canada. The financing arrangement increases the Fund's credit facility from $128.1 million to $159.1 million. The financing arrangement is comprised of $32 million for operating debt, $30 million for letters of credit and the remainder for term debt. The increased financing will be used to finance growth opportunities in 2008.

Corporate Information

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ANNUAL GENERAL MEETING

Friday, May 2, 2008 at 2:00 p.m.
Red Deer Lodge Hotel
& Convention Centre
4311 – 49th Avenue
Red Deer, Alberta

BANKER

HSBC Bank Canada
108, 4909 – 49th Street
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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: PKI.UN

REGISTRAR AND TRANSFER AGENT

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Jim Pantelidis
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OFFICERS

Michael W. Chorlton
President and CEO

John G. Schroeder
Vice President and CFO
Corporate Secretary
Chief Privacy Officer

Chris R. Podolsky
Corporate Controller

WHOLLY OWNED SUBSIDIARIES

986408 Alberta Ltd.
986413 Alberta Ltd.
Neufeld Petroleum and Propane Ltd.
Parkland Holdings Limited Partnership
Parkland Industries Limited Partnership
Parkland Industries Ltd.
Parkland Investment Trust
Parkland Refining Ltd.

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