2010 ANNUAL REPORT

FUELING CANADIAN COMMUNITIES

Parkland
FUEL CORPORATION

We are...

Canada's largest independent marketer and distributor of petroleum fuels, managing a nationwide network of fuel sales channels for retail, commercial, wholesale and home heating oil customers. We are Canada's local fuel company, delivering competitive fuel products and serving Canadian communities through local operators who care. We strive to achieve operational excellence by offering our customers best-in-class reliable service while increasing returns to investors.

Cover Fas Gas Plus, Bowden AB.
This Page Bowden Terminal, Bowden AB.

We aim...

To continue the growth trajectory we've established over the last five years while maintaining and enhancing our dividends to shareholders. We are aggressively growing our fuel volumes through a comprehensive acquisition strategy while increasing operational efficiency and maintaining customer service excellence. Parkland is in a leading position to continue the growth of its share of the fuel marketing industry.

2005:

1.2

billion litres

2010:

3.5

billion litres

GROWTH SINCE 2005:

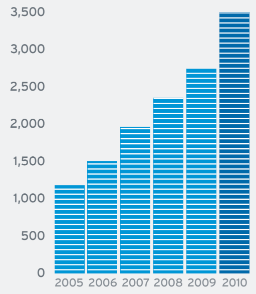
197%

With the majority of the issues relating to the Enterprise Resource Planning (ERP) system either solved or well underway towards resolution, improved refiners' margins, the addition of Bluewave's winter operations and the return to more normal winter weather conditions across Canada, the fourth quarter allowed Parkland to make up for some of the ground that was lost at the beginning of the year.

FUEL VOLUMES

millions of litres

3,500M

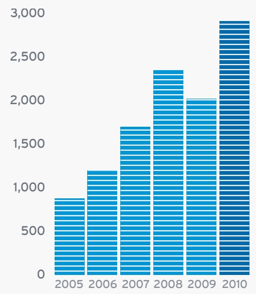


Fuel volumes for the year increased 28% with total fuel volumes of 3,500 million litres in 2010 compared with 2,742 million litres in 2009 due primarily to the acquisition of Bluewave Energy in January 2010. Parkland's fuel volumes have grown at a compound annual growth rate ("CAGR") of 24% over the past 4 years as Parkland continued to execute on its plan to grow petroleum product sales volumes through accretive acquisitions.

NET SALES & OPERATING REVENUES

millions of dollars

$2,913M

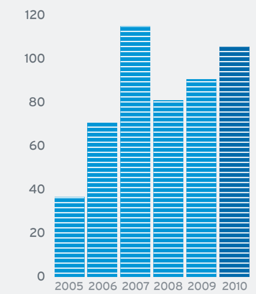


Net sales and operating revenue increased 44% to $2,913.4 million compared with $2,020.0 million in 2009 primarily due to an increase in fuel marketing and commercial revenues from the Columbia Fuels and Bluewave Energy acquisitions as well as increasing fuel prices. Bluewave contributed an increase of $536.2 million in fuel marketing and commercial revenues. Year-over-year fuel price increases added more than $200 million in revenue.

EBITDA

millions of dollars

$103M

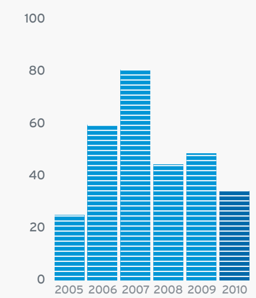


EBITDA in 2010 was $103.4 million, an increase of 14% from $90.8 million in 2009. The increase in EBITDA from 2009 is explained primarily by EBITDA increases from the Columbia Fuels and Bluewave Energy acquisitions offset by low refiners' margins, a warm first quarter that hampered heating oil and propane sales and by a $24.2 million increase in marketing, general and administrative expenses. The volatility seen in EBITDA since 2005 is attributable to the volatility of refiners' margins.

NET EARNINGS

millions of dollars

$30M



Net earnings in 2010 was $30.2 million, down 38% from $48.6 million in 2009. The decrease in net earnings is the result of higher EBITDA offset by higher amortization and interest costs due to recent acquisitions. Again, the volatility in earnings are attributable to refiners' margins, which are playing a decreasing role in Parkland's business. Refiners' margins were at the low end of seasonal and historic norms from the second quarter of 2009 to the third quarter of 2010.

Consolidated Highlights

For the year ended

(in millions of Canadian dollars except volumes)	December 31, 2010	December 31, 2009	% Change
Fuel volume (millions of litres)	3,500.3	2,742.0	28
Net sales and operating revenues	2,913.4	2,020.0	44
Gross profit	338.4	249.1	36
Operating and direct costs	159.4	106.9	49
Marketing, general and administrative	75.6	51.4	47
Amortization expense	62.5	37.9	65
Gain on disposal of property, plant and equipment	(3.1)	(0.9)	244
Refinery remediation accrual	0.3	0.4	(25)
Accretion on asset retirement obligation	0.1	0.2	(50)
Accretion on convertible debenture	2.1	0.1	2,000
Interest expense	25.2	5.7	342
Earnings before income taxes	16.3	47.5	(66)
Income tax (recovery) expense	(13.9)	(1.1)	
Net earnings	30.2	48.6	(38)
EBITDA[1]	103.4	90.8	14
Distributable cash flow[2]	75.4	81.6	(8)
Distributions	65.4	62.3	5
Distribution payout ratio	% 87	% 76	

(cents per litre)	December 31, 2010	December 31, 2009	% Change
Net sales and operating revenues	¢ 83.23	¢ 73.67	13
Gross margin	¢ 9.67	¢ 9.08	6
Operating and direct costs	¢ 4.55	¢ 3.90	17
Marketing, general and administrative	¢ 2.16	¢ 1.87	15
Amortization expense	¢ 1.79	¢ 1.38	29
Interest expense	¢ 0.72	¢ 0.21	246
Earnings before income taxes	¢ 0.47	¢ 1.73	(73)
Income tax (recovery) expense	(0.40)	(0.04)	
Net earnings	¢ 0.86	¢ 1.77	(51)
EBITDA	¢ 2.95	¢ 3.31	(11)

(1) Please refer to the Non-GAAP Measures section in the MD&A for a definition of EBITDA.
(2) Please see Distributable Cash Flow reconciliation table in the MD&A.

We've nearly tripled our fuel volumes in the last five years…

Parkland's fuel volumes have grown at a compound annual growth rate of 24% over the past four years as we executed on our plan to grow sales volumes of refined petroleum products through accretive acquisitions.

Non-urban Fas Gas Plus location.

Here is how we are going to keep growing...

Parkland's growth strategy is based on identifying opportunities to increase our share of the Canadian fuel distribution market.

We seek companies that are highly profitable at regular fuel prices.

We make acquisitions that are immediately accretive, increase fuel sales volumes, optimize the terms of our supply contracts, diversify our customer base and increase non-fuel profits.

Then we integrate these companies, applying best-in-class business processes and our fuel supply advantage to make an already profitable operation even more profitable.

We are the partner of choice

There are four primary sources of growth for Parkland:

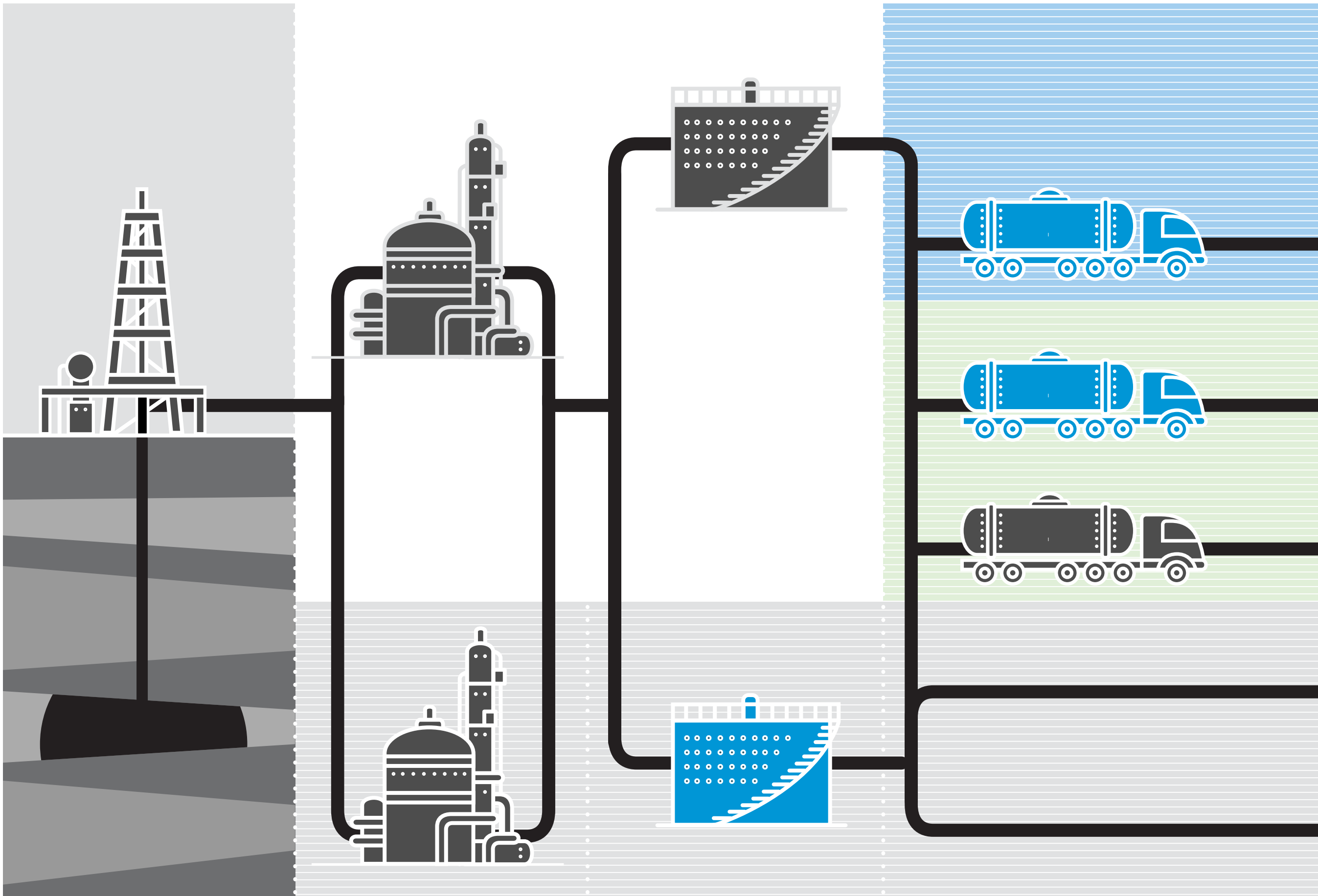
THE SOURCE	DESCRIPTION
Major independents	Large independent fuel marketers are defined as those that have annual fuel volume sales between 200 and 1,500 million litres.
Petroleum refiners	Petroleum refiners have been actively divesting parts of their downstream marketing channels.
Small independents	Small independent fuel marketers have annual fuel volume sales of less than 200 million litres.
Organic growth	This includes retail gas station upgrades, acquiring new retail dealers, and building new retail and commercial outlets.

As the largest independent fuel marketer in Canada, we are the partner of choice when independents and majors look to divest their fuel marketing businesses.

THE OPPORTUNITY	PARKLAND EXAMPLES
15 independents represent more than **9** billion litres	Neufeld – 2007 Bluewave – 2010
More than **4,400** retail service stations and more than **500** bulk plants are still directly supplied by refiners	Esso* (115 stations in AB & SK – 2005) Esso* (25 stations in BC – 2006) Esso* (43 stations in AB & ON – 2009) Shell Lubricants (2010) * retail branded distributor agreements
More than **1.5** billion litres	Joy Propane (2007) United Petroleum (2007) Noco (2008) Columbia Fuels (2009) Island Petroleum (2010)
2-3% compound annual growth rate	New 2010 service stations: Grande Prairie, Westlock, Dawson Creek, Kimberley and more New 2010 leases/acquisitions: Regina, Red Deer, Frank, Fernie and more

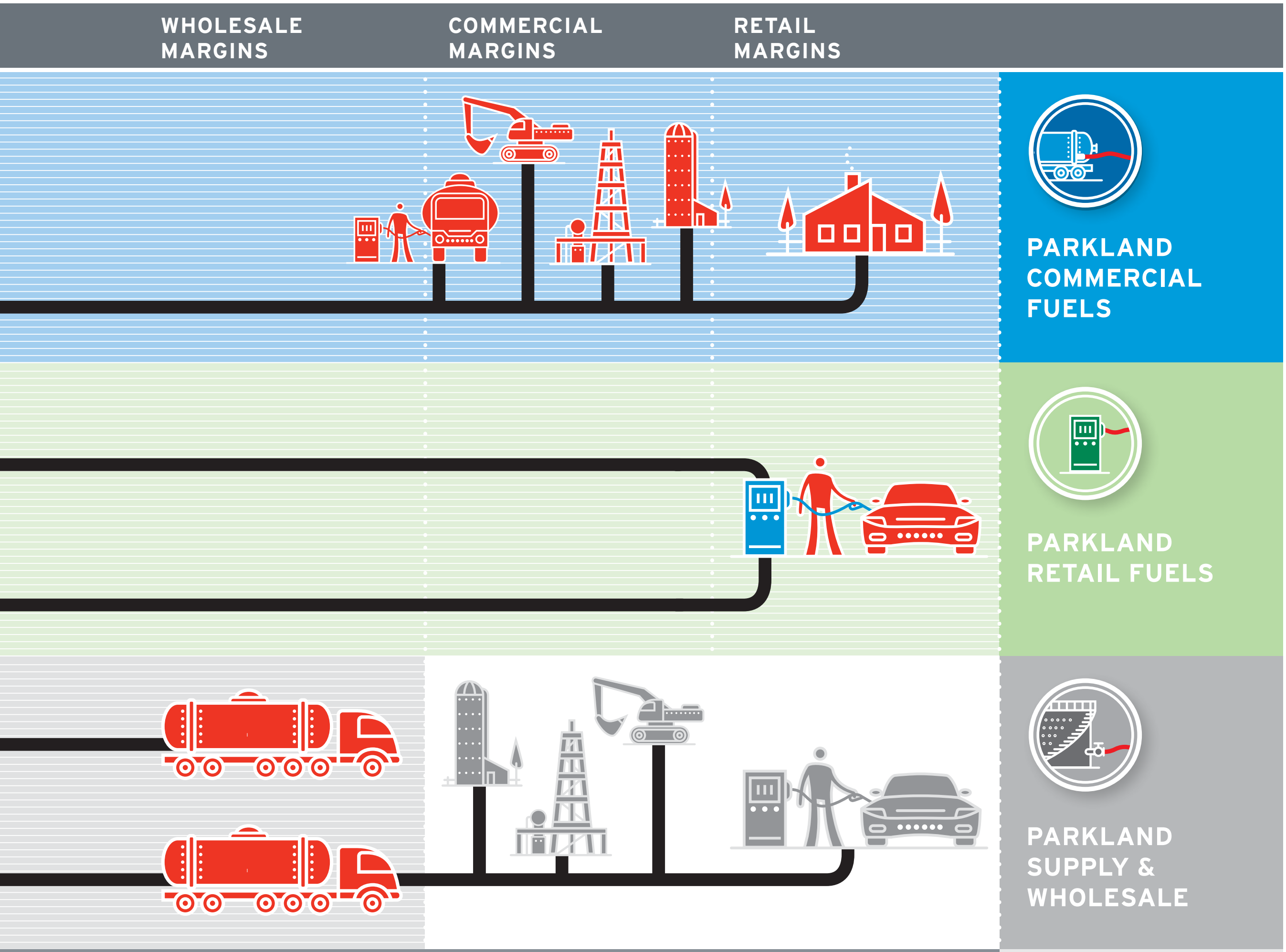
Where Parkland Makes Money

UPSTREAM MARGINS	REFINERS' MARGINS	TERMINAL AND STORAGE FEES	TRANSPORT FEES



EXPLORATION AND PRODUCTION	REFINING	DISTRIBUTION TERMINALS	TRANSPORT AND DISTRIBUTION
Oil and gas exploration and production companies look for and produce crude oil from underground deposits and the oilsands. Crude oil is then transported to refineries throughout North America.	Crude oil enters the refinery where it is processed into refined petroleum products that include gasoline, diesel and heating oil; the foundation of Parkland's business. Refined products are either sold from the refinery or transported to a primary distribution terminal for sale.	Distribution terminals receive and store petroleum products, holding these products in inventory until they begin their journey to the end customer. Parkland has two bulk plants (small tertiary terminals in Grande Prairie, AB and Fort Nelson, BC) and is developing a third, much larger terminal at Bowden, AB.	Refined petroleum products are transported from refineries and distribution terminals to commercial and industrial customers, retail service stations and households using both large long-haul tanker trucks as well as smaller local delivery trucks. Parkland uses a mix of third party trucking providers (67%) as well as its own fleet of trucks (33%) for long-haul deliveries.

As input prices for crude and other materials required for the refining process increase, so do prices across the value chain. However, margins stay relatively stable.



WHOLESALE AND RESELLER CUSTOMERS

Wholesale and reseller customers purchase fuel for resale to their own commercial and industrial customers. Wholesalers and resellers arrange to pick-up the fuel directly from the refinery or primary distribution terminal on Parkland's ticket, and then transport and deliver this fuel to their own end users.

COMMERCIAL AND INDUSTRIAL CUSTOMERS

Industrial and commercial customers purchase fuel in bulk from Parkland to support their industrial activities. This includes oil & gas, mining, forestry and agricultural operations. Cardlocks, which are a commercial version of a retail gas station but provide fuel to commercial truckers, also fall into this category.

INDIVIDUAL CONSUMERS

Individual consumers purchase fuel to provide for their everyday needs. This includes Canadian motorists who fill their vehicles up at service stations and home owners who purchase heating oil or propane from Parkland to heat their homes.

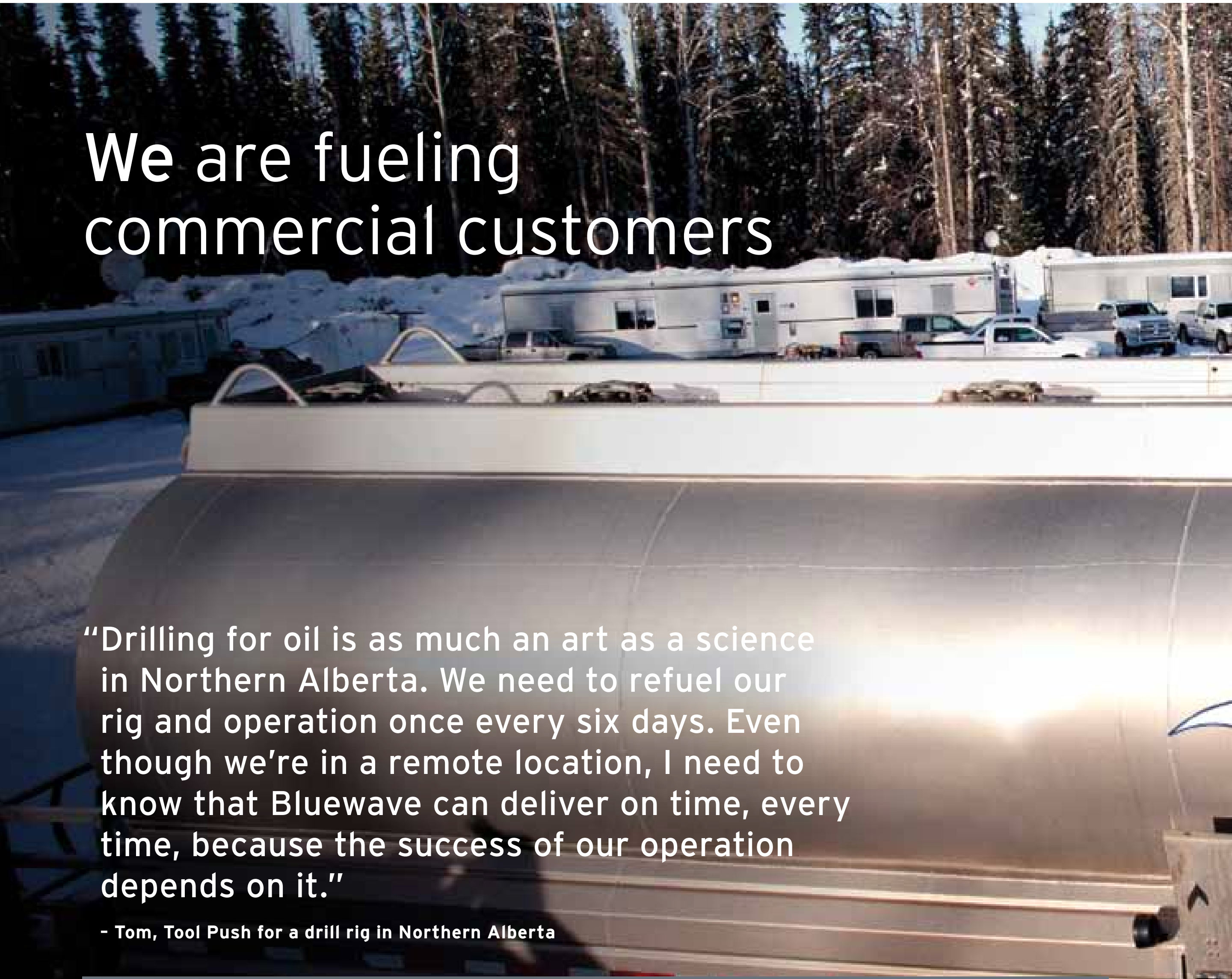
LEGEND

Parkland

Third-Party

Customer

Not part of the Parkland value chain



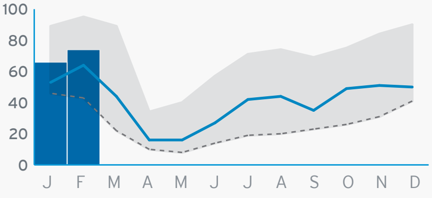
We are fueling commercial customers

"Drilling for oil is as much an art as a science in Northern Alberta. We need to refuel our rig and operation once every six days. Even though we're in a remote location, I need to know that Bluewave can deliver on time, every time, because the success of our operation depends on it."

– Tom, Tool Push for a drill rig in Northern Alberta

COMMERCIAL BUSINESS DRIVERS

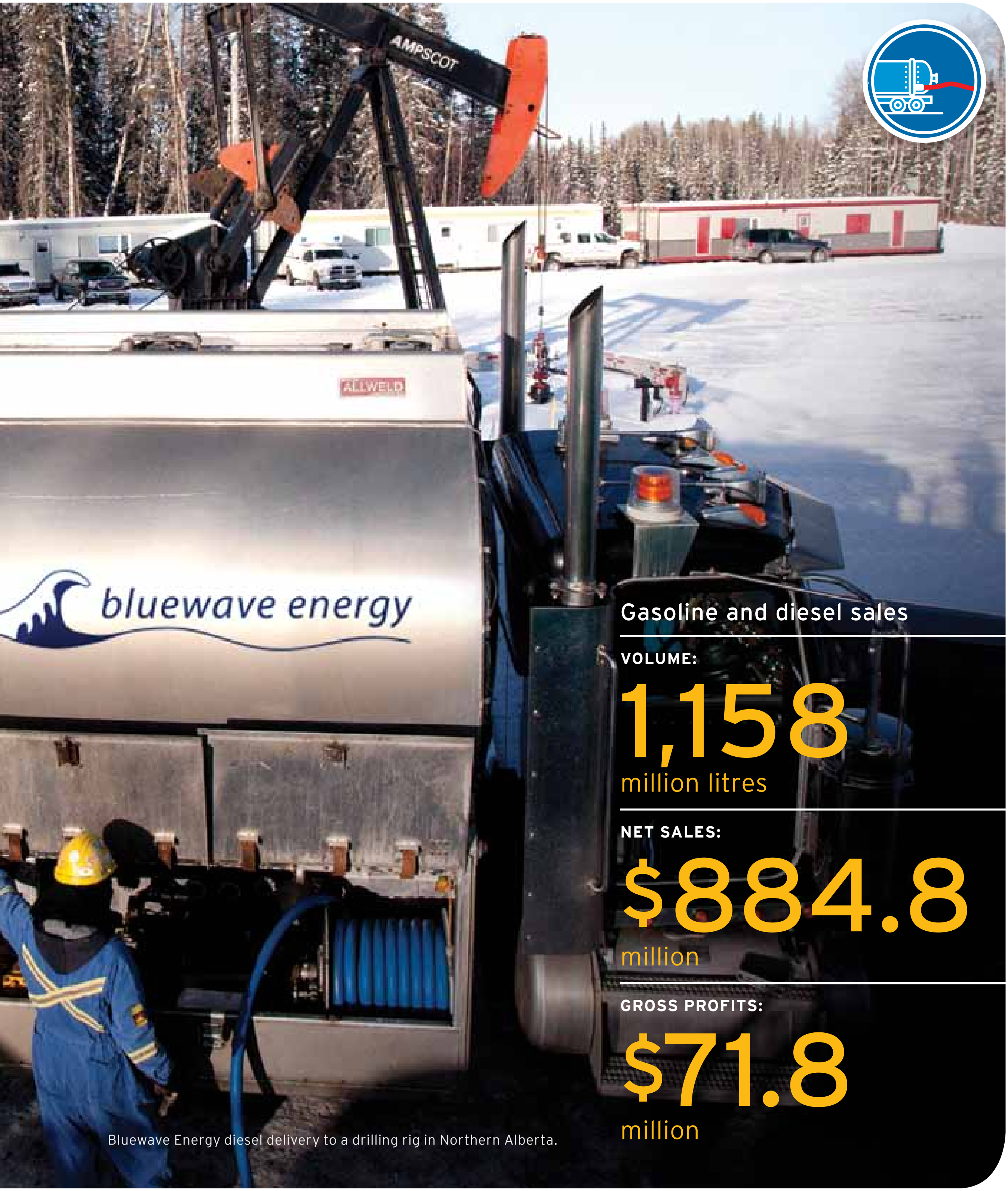
CANADIAN RIG UTILIZATION
percent utilization



Commercial sales volumes are related to activity in the oil and gas, mining, forestry, trucking and other commercial industries in Parkland's core markets. Parkland uses the rig utilization rates reported by the Canadian Association of Oilwell Drilling Contractors (CAODC) to determine activity levels for its core markets. Rig utilization through 2010 was observed at or near the median compared to the maximum and minimum levels reported since 2005. This trend continued into 2011.

5 Year min/max 2011 2010 2009

Source: CAODC (www.caodc.ca/statistics/rigcounts-drilling_monthly.html)



Gasoline and diesel sales

VOLUME:

1,158
million litres

NET SALES:

$884.8
million

GROSS PROFITS:

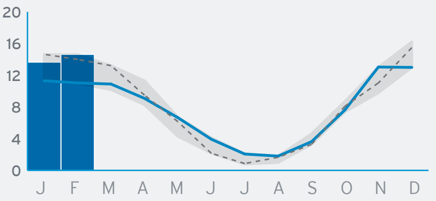
$71.8
million

Bluewave Energy diesel delivery to a drilling rig in Northern Alberta.

We are fueling homes

HEATING OIL AND PROPANE BUSINESS DRIVERS

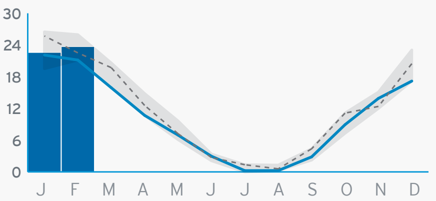
VICTORIA, BRITISH COLUMBIA HEATING DEGREE DAYS



Residential heating oil sales are proportional to heating degree days (HDD). HDD for a given day are the number of Celsius degrees that the mean temperature is below 18°C. During the first quarter of 2010, Parkland's Western heating oil markets experienced abnormally warm weather, which had a negative impact on Parkland's sales. However, in the fourth quarter, conditions returned to a more normal temperature range (excluding December). This had an overall positive impact. Heading into the first quarter of 2011, HDD were at the upper end of norms.

5 Year min/max 2011 2010 2009

HALIFAX, NOVA SCOTIA HEATING DEGREE DAYS



Following the acquisition of Bluewave at the end of January 2010, Parkland began participating in the heating oil markets on Canada's East Coast. Due to the timing of the acquisition, Parkland missed the relatively normal temperatures of January 2010, which were followed by abnormally warm weather for the remainder of the heating season in the first quarter, compounding the impact of the mild winter on the West Coast. While the fourth quarter of 2010 was slightly warmer than the median, HDD heading into the first quarter of 2011 were closer to normal.

5 Year min/max 2011 2010 2009

Source: Environment Canada (www.climate.weatheroffice.gc.ca/climateData/canada_e.html)

Heating oil & propane sales

VOLUME:

300
million litres

NET SALES:

$208.8
million

GROSS PROFITS:

$50.6
million

Columbia Fuels delivering home heating oil.

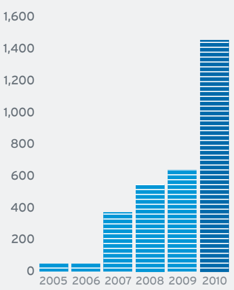
We fuel industry, commerce and homes

Parkland Commercial Fuels is our fastest growing business segment and represents a significant opportunity for further growth. We are a reliable supplier of fuel and related products and services to industrial and commercial customers, delivering bulk fuel, propane, heating oil and lubricants to oil and gas, industrial, forestry, mining and many other commercial operations. The Commercial Fuels division also delivers heating oil to residential customers. This division serves commercial customers across the country through more than 130 locations, including 85 cardlock sites, and is responsible for the branded distribution of fuels for Canada's three major refiners.

COMMERCIAL RESULTS

FUEL VOLUMES
millions of litres

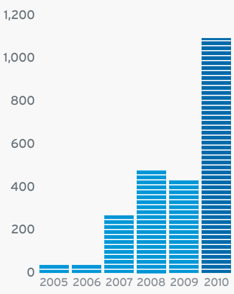
1,458M



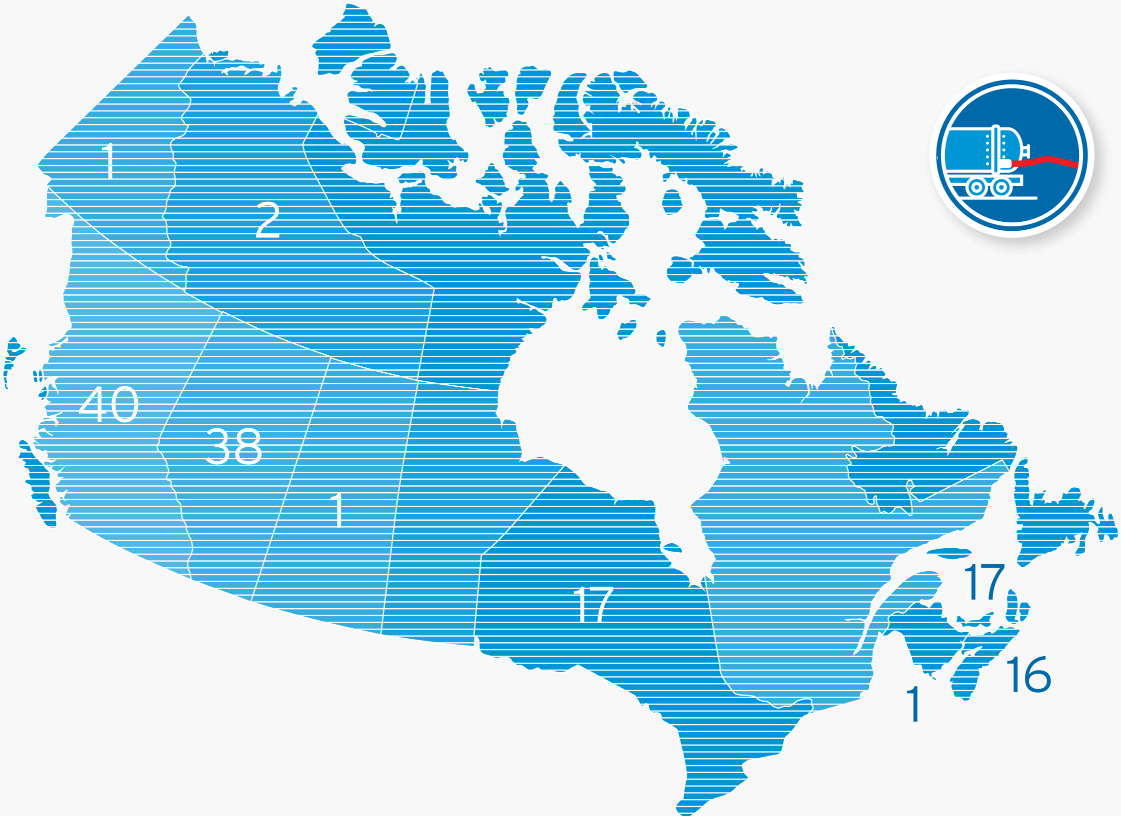
Parkland Commercial Fuels is the Corporation's fastest growing division and accounted for 42% of Parkland's total fuel distribution in 2010. For the year ended December 31, 2010 commercial fuel volumes increased 128% or 818 million litres to 1,458 million litres compared with 640 million litres in 2009 primarily due to the acquisition of Bluewave Energy's commercial fuel volumes in January 2010.

REVENUE
millions of dollars

$1,094M



For the year ended December 31, 2010 commercial fuel sales increased 154% or $663 million to $1,094 million compared with $431 million in 2009 primarily due to the acquisition of Bluewave Energy's commercial fuel volumes in January 2010.



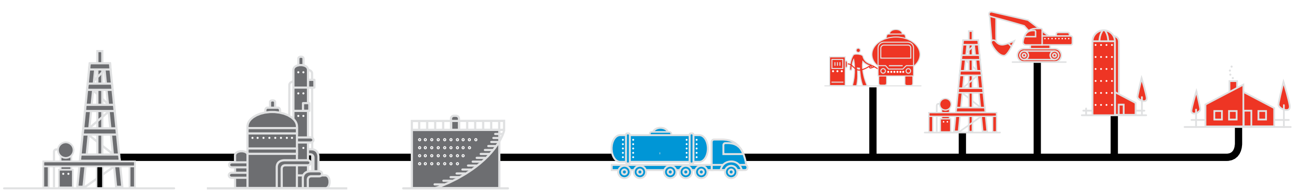
COMMERCIAL LOCATIONS

133

including 85 cardlocks

Parkland Commercial Fuels' family of successful brands includes: Bluewave Energy, Columbia Fuels, Great Northern Oil, Neufeld Petroleum & Propane, United Petroleum Products, Island Petroleum and Race Trac cardlock locations. All of these brands feature quality products and services and a commitment to locally delivered, premium customer service. Fuel volumes from Parkland Commercial Fuels accounted for 42% of the Corporation's total fuel distribution in 2010.

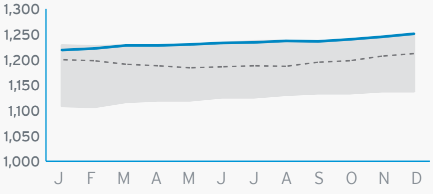
COMMERCIAL VALUE CHAIN



We'll get you there

RETAIL BUSINESS DRIVERS

GROSS DOMESTIC PRODUCT
billions of chained dollars 2002



Retail fuel spending in Canada correlates strongly with the economy. Canadian Gross Domestic Product (GDP), an indicator of economic activity, demonstrated strong growth compared with 2009, and was at its highest levels since 2005. This likely helped increase Canadian consumption of gasoline and diesel by 6.5% to 72.8 billion litres during the twelve months trailing September 30, 2010 compared with 68.3 billion litres in the prior 12-month period. In addition, personal expenditures on motor fuels and lubricants grew by 4.1% to $22.9 billion in 2010 compared with $22.0 billion in 2009.

5 Year min/max 2010 2009

Source: Statistics Canada Gross Domestic Product by Industry – Catalogue no. 15-001-X Page 161 & Cansim Table 380-0024

Gasoline & diesel sales to motorists

VOLUME:

1,470
million litres

NET SALES:

$1,146.8
million

GROSS PROFITS:

$98.5
million

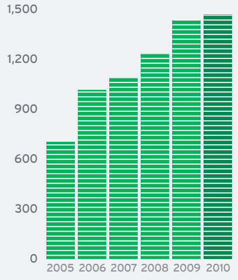
We'll get you there

Parkland sells fuel through a network of 619 retail locations across the country. We focus on maintaining the integrity of the retail brands we manage including Fas Gas Plus, Race Trac and Esso, each of which provides a customer experience appropriate to their market segment. We are focusing on a transition from Parkland-operated to commission-operated retail locations. At commission-operated retail locations, independent entrepreneurs manage the station and provide the staff for operations. At independent dealer-operated sites, a third party owns and manages the station and contracts with Parkland to provide fuel for the site.

RETAIL RESULTS

FUEL VOLUMES
millions of litres

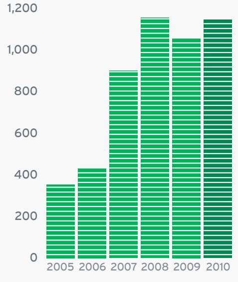
1,470M



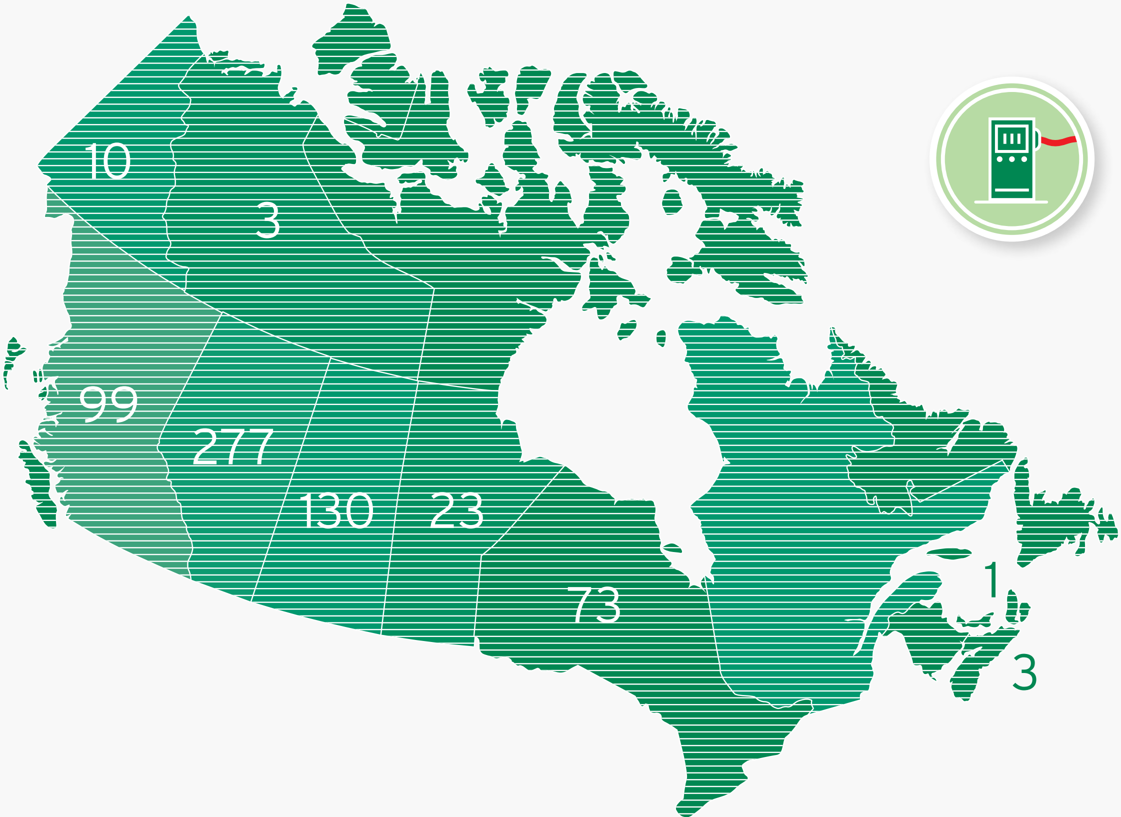
For the year ended December 31, 2010 retail fuel volumes increased 2% or 28 million litres to 1,470 million litres compared with 1,442 million litres in 2009. This increase was entirely due to organic growth in same-store sales and added locations offset by the rationalization of poorly performing stations.

REVENUE
millions of dollars

$1,147M



During 2010 retail fuel sales increased 9% or $91 million to $1,147 million compared with $1,056 million in 2009 primarily due to the increasing price of fuel. While sales on a cents per litre basis will fluctuate based on the market's demand for fuel, net fuel gross profit on a cents per litre basis drives the profitability of the retail fuels division. While these margins decreased by 4.5% for the year ended December 31, 2010 due to the entry of new competitors in certain markets, the decrease for the three months ended December 31, 2010 was 4.1% as the competitive landscape normalized somewhat.

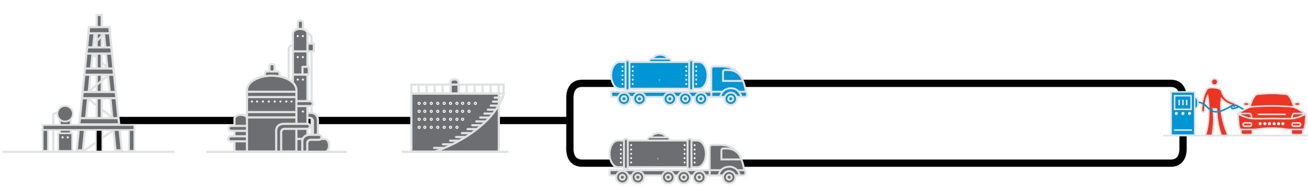


RETAIL SERVICE STATIONS

619

Parkland Retail Fuels proudly serves Canadian motorists coast-to-coast under the Fas Gas Plus and Race Trac brands. Parkland is also a Retail Branded Distributor for Imperial Oil Limited with locations in Saskatchewan, Alberta, British Columbia and Ontario operating under the Esso brand. Fuel volumes from Parkland Retail Fuels accounted for 42% of the Corporation's total fuel distribution in 2010.

RETAIL VALUE CHAIN

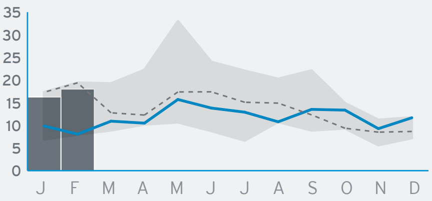


We maintain a material supply advantage

REFINERS' MARGINS

GASOLINE REFINING MARGINS - EDMONTON

cents per litre

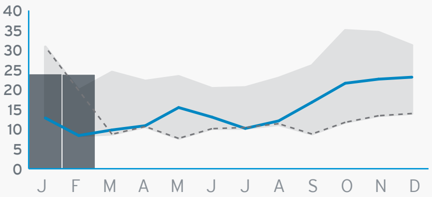


Parkland participates in refiners' margins for a portion of its fuel volumes through one of its supply contracts (heavily weighted for gasoline). These margins are dictated by supply and demand and can be highly volatile. Between the second quarter of 2009 and the third quarter of 2010, refiners' margins for gasoline were at the low end of seasonal and historic norms due to excess supply and refining capacity. However, in the last quarter of 2010, and leading into January 2011, gasoline refiners' margins have been strong despite lingering excess supply and capacity in the market.

5 Year min/max 2011 2010 2009

DIESEL REFINING MARGINS - EDMONTON

cents per litre



In past years this contract has yielded windfall profits due to supply constraints arising from hurricanes and outages. However diesel margins were also depressed between the second quarter of 2009 and the third quarter of 2010. In the last quarter of 2010 and leading into January 2011, despite lingering excess supply and capacity in the North American marketplace, diesel refiners' margins recovered significantly.

5 Year min/max 2011 2010 2009

A Wiebe Transport long-haul fuel tanker filling up at an Edmonton fuel terminal.

Wholesale fuel sales to resellers and refiners' margins

VOLUME:

682
million litres

NET SALES:

$534.7
million

GROSS PROFITS:

$18.8
million

We maintain a material supply advantage

In addition to selling fuel to wholesaler and reseller customers, Parkland's Supply and Wholesale division secures fuel supplies from diverse sources at competitive prices, ultimately establishing a material supply advantage. Our portfolio of eight oil refiner supply contracts combined with our national scope ensures that we obtain fuel supplies at competitive costs, and mitigates the risk that comes with having a single supplier. We are now taking advantage of opportunities to optimize our supply based on differences in pricing, availability and demand across our markets.

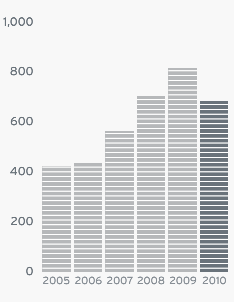
We are also well positioned to create value by assisting refiners in their ability to distribute fuel. We have done this by: Balancing our gasoline, diesel and other outputs to match what refiners produce; and Developing storage and terminalling capabilities.

Our position in the marketplace as Canada's largest independent fuel marketer is enhanced by our ability to efficiently distribute a balance of gasoline and distillate.

WHOLESALE RESULTS

FUEL VOLUMES
millions of litres

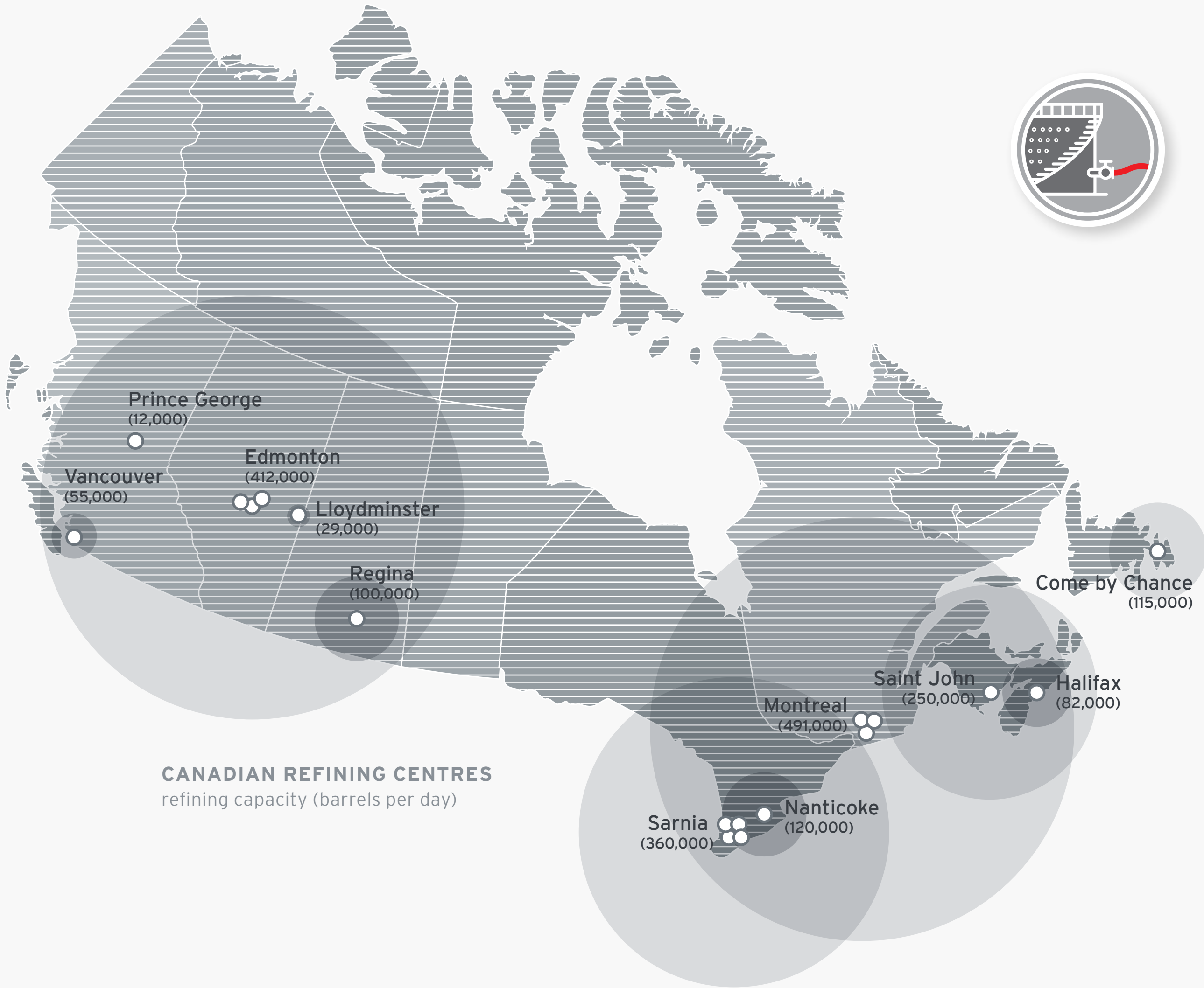
682M



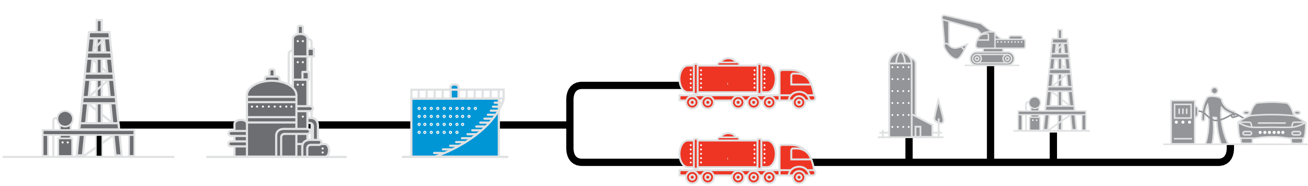
Wholesale Fuels volumes decreased 17% to 682 million litres from 817 million litres last year as sales were minimized due to unduly low refiners' margins. Wholesale sales to resellers will be increased when margins are favorable, and are decreased when margins are unfavorable.

CANADIAN REFINING CENTRES

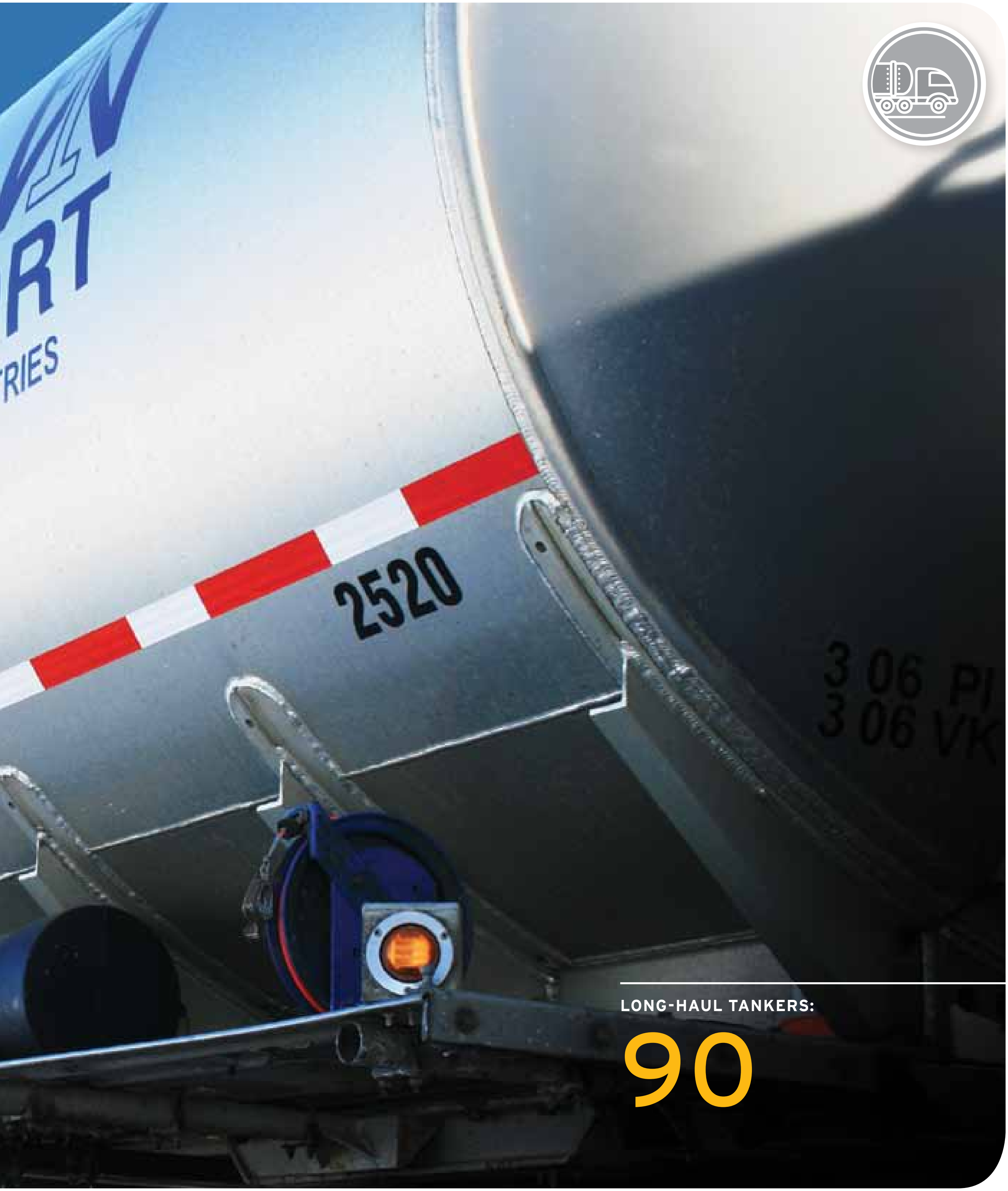
refining capacity (barrels per day)



WHOLESALE VALUE CHAIN



Parkland's Transportation division distributes fuel for the commercial and retail segments of the business. Using a combination of the Corporation's fleet of 90 long-haul trucks as well as third party carriers, fuel is distributed based on the consumption and demand requirements of the end user.



LONG-HAUL TANKERS:

90

We care about the environment

Parkland is committed to limiting the environmental impact of its operations and to the safety of its customers and employees.

TANKS REMOVED OR REPLACED

25

Parkland recognizes that to be an effective and profitable operator, it pays to protect the environment. Environmental liabilities pose a significant risk to operators in the fuel distribution industry and we are conscious of this in every area of our business.

Over the past five years, we have been actively replacing underground steel fuel storage tanks due to the risk they pose to the environment. In 2010, Parkland removed 25 steel underground storage tanks. We replaced these with either above-ground steel tanks or underground fiberglass tanks. At the end of 2010, we had less than 40 steel underground tanks in our network. By the end of 2011, we plan to reduce that to 32 as we continue to mitigate environmental risks across our organization.

WE CARE ABOUT THE SAFETY OF OUR CUSTOMERS AND EMPLOYEES

care

Our Health, Safety & Environment (HSE) program includes comprehensive policies and procedures to protect our workers, the public and the environment. Where possible, we maintain provincial Certificates of Recognition (COR) and are a proud participant in Alberta Worker's Compensation Board's Partnerships in Injury Reduction program.

Some of the accomplishments realized during 2010 include a reduction in our total recordable incident frequency, the development of a new three-year strategic plan for HSE and the re-certification of our Alberta COR through an external audit process.

The focus for 2011 includes the harmonization of HSE procedures across the corporation and the implementation of corrective action plans to ensure our incident rate continues to decline.

We care about our community

Parkland strives to be actively involved in supporting the communities that support our businesses across Canada. We actively seek opportunities that increase access to essential services to the people living outside large cities. Our key areas of focus include health and well-being, family support, special needs, prevention of violence and youth development.

$100,000

over 3 years

Alberta CANCER FOUNDATION

We have partnered with the Alberta Cancer Foundation as the Official Fuel Provider of the Digital Mammography Screening Program. In a three-year agreement, we will provide gasoline and diesel fuel to power the Digital Mammography Screening Program, which includes two mobile screening trailers equipped with high quality mammography screening devices. These trailers provide services to women in approximately 105 rural communities across Alberta to aid in the early detection of breast cancer.

$20,000

Providing fuel to families using Ronald McDonald House

Ronald McDonald House CENTRAL ALBERTA

Parkland is a proud sponsor of the development and operating costs of the much needed new Central Alberta Ronald McDonald House, opening in the fall of 2011. Approximately 11,000 children from rural communities stay at the Red Deer Hospital each year. The House will provide a 'home away from home' for them and their families. Fas Gas Plus will be donating fuel to families who must travel long distances to stay at the house while their children receive medical care.

$35,000

in 2010

United Way

Parkland matched the funds raised by employees to make a donation of more than $35,000 to the United Way of Central Alberta in 2010. United Way's mission is to improve lives and build communities by engaging individuals and mobilizing collective action, and is primarily focused on poverty, homelessness and families or individuals in need. In 2009, United Way Canada raised more than $487 million, which was reinvested into community programs and services.

$500,000

over 5 years

RDC

Parkland also made donations to the Red Deer College (RDC) Building Communities Through Learning campaign and has an ongoing RDC Parkland Fuel Corporation Endowment in support of three scholarships in the transportation industry programs.

We are Emerging from the Storm

The Perfect Storm

Our final quarter of 2010 improved what was a very challenging year for Parkland. The first three quarters were no less than a perfect storm for us. A warm winter across our heating oil and propane markets, refiners' margins that were depressed below both seasonal and historic norms, and the issues that arose due to the implementation of our Enterprise Resource Planning (ERP) system posed significant challenges for us.

Our vision is to be the market leader in customer loyalty, employee engagement and investor confidence. The challenges we experienced during our first three quarters of 2010 put stress on these very groups and we know we need to improve.

Rising to the Challenge

While the weather and the economy are outside of our influence, we took significant measures to reduce and control our costs to address the lower than normal contributions from heating oil and propane in the first quarter and from refiners' margins throughout the year. In the middle of this we also had to navigate the challenges our new ERP system posed.

The challenges our team faced this year were very significant. Faced with such challenges, I believe our team performed admirably. The relentless commitment of our employees to face these challenges, the sacrifices they made on our behalf and the resourcefulness they demonstrated were nothing short of inspirational. Their dedication was key to the recovery we made by the end of the fourth quarter.

I am very proud of the way people at every level of this organization pulled together.

Strength for Tomorrow

In the middle of all this, we were building a platform for growth that will serve our customers, employees and shareholders in the years to come.

Bluewave

We made our largest acquisition ever at the end of January 2010 when we purchased Bluewave Energy for $232 million. This game changing acquisition brought together Canada's two leading independent fuel business consolidators and combined our acquisition pipelines. While the equity limits imposed upon income trusts back in 2006 forced us to take on debt to complete the transaction, the timing of the opportunity and its strategic benefits warranted our decision to move forward. Bluewave added roughly 650 million litres of annual fuel volumes to our portfolio, a seasoned management team and strong supplier relationships.

We also inherited their acquisition pipeline, which led to the Shell Lubricants agreement in September and the Island Petroleum acquisition in December.

Shell Lubricants

The Shell Lubricants agreement, effective September 30, 2010, was immediately accretive and is projected to increase our direct and bulk lubricant sales to 37 million litres annually from 17 million litres, based on historical figures. We believe that there is tremendous opportunity to grow this business over time.

Island Petroleum

On December 30, 2010 we acquired Island Petroleum for $23.9 million with almost half the purchase price paid in equity. Again, this acquisition was immediately accretive and adds 70 million litres of fuel sales to our portfolio. Island Petroleum is the largest heating oil distributor on Prince Edward Island and offers good synergies with our Bluewave operations in the region.

Supply Strength

The acquisition of Bluewave also strengthened our relationship with key refiners and further diversified our supply portfolio. We now maintain fuel supply contracts with eight oil refiners. This portfolio allows Parkland to obtain fuel supplies at highly competitive prices and enhances the security of our fuel supply.

While we received notice on December 31st that our current supply contract with Suncor will conclude at the end of 2013, we believe that we will be able to economically replace this supply either through Suncor or with other suppliers.

In anticipation of receiving Suncor's notice of termination, Parkland had already started developing alternate supply options and related facilities to replace the contract with Suncor. We believe that our supply portfolio in 2014 will provide strong returns on a more predictable basis than the returns we experienced in recent quarters.

Enterprise Resource Planning (ERP) System

Despite the challenges we experienced during the deployment of the ERP system, we were able to successfully reach resolution and move forward in the fourth quarter to system sustainment. Over 2011 Parkland will drive new efficiencies into our organization through this unified ERP system. The enhanced visibility into each of our business units provided by this system will help us optimize Parkland's entire fuel supply chain, driving down costs on a cents per litre basis over the long term. The system also provides a scalable growth platform that will allow us to smoothly integrate newly acquired companies into.

Balance Sheet

With our acquisitions over the past five years, our balance sheet now has more debt than we've had in the past. Addressing the debt on our balance sheet will be a long-term focus for our team. During the month of December there were two developments that will improve our balance sheet.

On December 21st we closed our $45 million convertible, unsecured subordinated debentures offering that was sold on a bought deal basis. The debenture, bearing interest at 5.75% with a 60% conversion premium, was completed on industry leading terms and used to reduce outstanding bank debt as well as fund part of the Island Petroleum acquisition.

On December 22nd we announced the Premium Dividend™ and Dividend Reinvestment Plan for shareholders of Parkland Fuel Corporation. The Plan allows shareholders to participate in raising equity capital in a manner that is beneficial to them financially, and beneficial to Parkland because it is a low-cost means of incrementally raising capital. The capital we raise through this Plan will help finance future growth and strengthen our balance sheet over time.

Corporate Conversion

On December 31st we converted from an income trust to a corporation. The conversion, which was a tax deferred exchange of one trust unit for one common share, went smoothly. Our shares began trading on the TSX January 7, 2011 under the trading symbol "PKI." Being a corporation will allow us to manage our capital more strategically now that the constraints placed on income trusts no longer apply.

We've learned many important lessons over the past year about how to grow Parkland sustainably. These lessons form a part of our increased capacity for growth and business development.

A Legacy of Growth

Since 2005, we have been executing a strategy to grow our fuel marketing revenues and reduce our reliance on refiners' margins. In large part, this was because we recognized that we would eventually have to replace the earnings that we have historically enjoyed from the supply contract we have with Suncor (previously Petro-Canada) that allows us to participate in refiners' margins.

To this end, we have more than tripled our share of Canada's fuel distribution and sales market over the past five years, and increased our annual fuel sales to 3.5 billion litres. This represents a compound annual growth rate of 24% in fuel volumes over the past four years.

Given this growth, I think what confuses some investors is our bottom line. With all these acquisitions, where is the earnings growth? The reality is that for the six quarters that preceded the fourth quarter of 2010, refiners' margins were below seasonal and historic norms, and our contract with Suncor was in fact less economic at times than our other supply contracts.

Had we not embarked on a strategy of accretive acquisitions, we would not have been able to maintain our monthly trust distributions through 2009 and 2010, and we would not have been able to set our dividend for 2011 at $1.02 per share per year.

We believe that our ability to offer investors a dividend that is superior on an after-tax basis (when held outside of a tax deferred account) compared to our distribution as a trust, demonstrates that our strategy is working . We are well positioned to continue to provide our investors with a balance of growth and income.

In Parting

Since joining Parkland in 2005, we have come a long way thanks to the hard work of our team. During this time we have grown to be Canada's largest independent fuel distributor and marketer, paid our investors $362 million in trust distributions providing a total return of 194%, and grown our fuel volumes at a compound annual growth rate of 24%.

I am proud to have been a part of this team and I want to thank Parkland's employees for their faithfulness, diligence and tremendous work ethic.

As I depart, I invite you to join me in welcoming Bob Espey to the role of President and CEO of Parkland. Bob is a natural leader who will be able to provide the strategic direction that Parkland requires to achieve its growth targets in the years ahead and to deliver outstanding shareholder value.

I am excited for Parkland's future. I believe the opportunities before Parkland will make it the best organization to work at, invest in and do business with in the years to come.

Sincerely,

MIKE W. CHORLTON

We See the Path Forward

As much as I am writing this letter on behalf of the Board of Directors ("the Board"), I am also writing it on behalf of Bob Espey who will be taking the helm at Parkland as CEO on May 1, 2011.

Following Mike's review of the past year, I wanted to focus this letter on the future of Parkland. The mandate set by the Board will be to continue executing on the strategic pillars that have made Parkland the success it has been.

As Mike mentioned, this was a challenging year for Parkland's customers, employees and investors. I would like to address these challenges and explain how Parkland is going to improve in 2011.

Pillars of Success

There are three strategic levers that we believe drive value for Parkland's customers, employees and investors: Growth - Growing the fuel marketing business in a manner that ensures profitability independent of any fuel supply advantage. Supply - Extracting value from our supply contracts and operations. Operations - Achieving efficiency through operational excellence.

Growth

Mike reviewed the progress Parkland has made over the past five years in growing its marketing business and reducing our reliance on refiners' margins. Today, retail and commercial fuel sales represent the majority of the Corporation's gross profits compared to a minority in the past. This is a testament to Parkland's success in creating a successful business that can thrive independent of refiners' margins.

Over the next five years, we believe Parkland can continue the growth trajectory established over the previous five years by acquiring other independents and non-core refiner assets.

Supply

Parkland is well positioned to extract value from its supply portfolio. That said, this isn't just about Parkland using its size to bargain better deals with the refiners. The Corporation is now in a position to offer refiners solutions for the distribution of their products that they didn't have before.

By being the only independent selling a balanced portfolio of gasoline and distillate, something we call "balancing the barrel", Parkland sales are matched closely with refiners' outputs. As a result, it is possible to offer refiners the ability to draw evenly on their products, which is advantageous to them, and an area where we can extract additional value.

Parkland is also developing the ability to terminal fuel for itself as well as for suppliers who are experiencing constraints at their facilities that interfere with their ability to serve customers. Discussions are underway to show refiners what Parkland can do for them, and to look for ways to augment these symbiotic relationships.

Parkland will continue aggregating and optimizing its fuel supply to produce better returns for our investors.

Operations

Parkland aims to offer superior customer service at the lowest cost possible.

The growth Parkland has achieved has expanded its scope of business, providing the Corporation with an opportunity to achieve economies of scale and to drive earnings more effectively on a cents per litre basis. We measure operational effectiveness by looking at Parkland's net operating costs and marketing, general and administrative expenses on a cents per litre basis. There is clearly a need to drive these expenses down.

Over the course of 2011, Parkland will be focused on improving both customer service and operational efficiency by re-engineering more of the Corporation's business processes and extracting value through the new ERP system.

Parkland will continue to deliver best-in-class service to its customers through local operators who care.

People Who Matter

Customers, employees and investors are the people who matter most to Parkland. And while Parkland's vision is to be the market leader in customer loyalty, employee engagement and investor confidence, it struggled to live up to that standard this year.

Parkland is committed to doing better.

Customers

Customer service must be one of Parkland's key competitive differentiators. It's what allows the Corporation to out-compete other fuel companies in attracting and retaining customers.

While the implementation of the new ERP system caused challenges for customers, Parkland has stabilized the system and is moving forward in delivering great service across Canada.

In late 2010 Parkland kicked off a new customer service initiative to further reinforce its relationships with customers, and will ensure this competitive advantage is maintained and enhanced over the coming year.

Employees

This year was challenging for Parkland's employees and I want to thank them for their tireless efforts to make Parkland a success.

To enhance the Corporation's effectiveness, senior management is continuing work begun in 2010 towards building one Parkland team; integrating teams from across the country onto a consolidated compensation, performance management and support platform. While this initiative has come with change for some, it is the only way to sustainably manage an organization with more than 1600 employees across Canada.

Parkland will continue to execute on its Employment Equity initiative to ensure Parkland is a fair workplace that supports outstanding achievement from employees of all backgrounds.

Senior management will also actively work towards enhancing the Corporation's value proposition to employees by adopting better performance management systems, providing better feedback and employee support systems and improving overall engagement with employees.

Building a strong united team will enhance Parkland's ability to execute its strategy.

Investors

The volatility in earnings during 2010 made it a challenging year for investors and Parkland's other key stakeholders in the capital markets. The results really boil down to refiners' margins, a record warm winter through the first quarter, the ERP system implementation and a change in the seasonality of Parkland's business.

That said, I think the Board and Parkland made some real strides on behalf of shareholders through 2010.

At the end of May Parkland hired a new investor relations manager dedicated to improving communication with the capital markets. I think this was an important step in broadening our exposure within the capital markets and increasing investors' understanding of Parkland's value proposition.

On November 26th Parkland made its 2011 dividend announcement. Prior to making this announcement, investors were consistently telling us two things:

Offer a balance of income and growth; and Maintain the monthly payment cycle. We listened.

Paying shareholders a monthly dividend of $0.085 per share ($1.02 per year) struck a balance between providing an attractive yield for income-oriented investors and retaining capital for growth opportunities.

This dividend level will allow Parkland to continue to execute on its growth plans through a combination of internally generated funds, external debt and equity capital.

A key consideration for the board in setting the dividend was that it be sustainable in the near term, with the opportunity to increase over time as Parkland succeeds with its growth plans.

Then, on December 22nd Parkland announced the Premium Dividend™ and Dividend Reinvestment Plan which allow Canadian shareholders to participate in raising equity capital in a manner that is beneficial to them financially.

The feedback from the investment community on these decisions has been very positive.

Corporate Governance

The members of Parkland's Board of Directors embrace their obligation to sound corporate governance practices. The adoption of Say-on-Pay and the transition from slate voting to individual voting on the Board have been recent improvements.

Both the Board and management welcome ongoing input on the Corporation's governance practices from interested investors and investor advocates.

Adopting best practices in corporate governance, setting strategic direction and providing strong oversight on business execution are top priorities for Parkland.

We take our obligation to maximizing value for Parkland's shareholders very seriously.

A New Beginning

Before I conclude my letter to you, I want to thank Mike Chorlton for a job well done, and welcome Bob Espey, Parkland's incoming CEO.

Under Mike's leadership, Parkland has grown from a regional retail fuel marketer to the largest national independent fuel marketer in Canada. Parkland now has retail, commercial, wholesale, home heating oil, convenience store and other related operations that position the Corporation strategically for future growth and balanced earnings.

Parkland's enterprise value has grown from approximately $250 million in 2005 to nearly $1 billion in the space of five years, while paying shareholders $362 million in cash distributions. This is truly a remarkable achievement and a testament to Mike's leadership and dedication.

On behalf of the Board of Directors, I wish Mike all the best with his retirement plans. I hope he enjoys a much earned opportunity to relax after five years of intense efforts to grow Parkland into a National force.

That said, Parkland is in good hands, with another great leader. Bob was recruited in 2008 as a successor for Mike and since that time has proven himself in Parkland's Retail and Wholesale and Supply divisions.

Given Bob's performance over the past three years, his ability to engage stakeholders and his insight into building businesses effectively, I am confident in Bob's ability to provide Parkland with the strategic leadership required to achieve its growth targets in the years ahead.

I know Bob will deliver outstanding value to our shareholders while enhancing Parkland's relationship with employees and customers across Canada.

I look forward to seeing what 2011 will bring. There are truly some remarkable opportunities for Parkland in the years ahead and I know our team will continue to execute on the strategy that continues to drive value at Parkland.

Sincerely,

JIM PANTELIDIS

Table of Contents

Cautionary Information

This MD&A provides a comparison of Parkland Fuel Corporation's (the "Corporation") and Parkland Income Fund's (the "Fund") and together their ("Parkland") performance for the three and twelve month periods ended December 31, 2010 with the three and twelve month periods ended December 31, 2009. It also includes discussion of Parkland's affairs up to March 14, 2011. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes. All amounts disclosed are in Canadian dollars.

Prospective data, comments and analysis are also provided wherever appropriate to assist existing and new investors to see the business from a corporate management point of view. Such disclosure is subject to reasonable constraints of maintaining the confidentiality of certain information that, if published, would potentially have an adverse impact on the competitive position of Parkland.

Additional information relating to Parkland can be found at www.parkland.ca. The Corporation's continuous disclosure materials, including its annual and quarterly MD&A, audited annual and unaudited interim financial statements, its 2010 Annual Report, Annual Information Form, Management Information Circular and Proxy, Material Change Reports and the various news releases issued by the Corporation are also available on its website or directly through the SEDAR system at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain information included herein is forward-looking. Forward-looking statements include, without limitation, statements regarding the future financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, effectiveness of internal controls, sources of funding of growth capital expenditures, conversion of Parkland to a corporate structure, anticipated dividends and the amount thereof, if any, to be declared by Parkland Fuel Corporation, expectations regarding the implementation of Parkland's new ERP system (as defined herein) and plans and objectives of or involving Parkland. Many of these statements can be identified by looking for words such as "believe", "expects", "expected", "will", "intends", "projects", "projected", "anticipates", "estimates", "continues", or similar words and include, but are not limited to, statements regarding the accretive effects of acquisitions and the anticipated benefits of acquisitions. Parkland believes the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties some of which are described in Parkland's annual report, annual information form and other continuous disclosure documents. Such forward-looking statements necessarily involve known and unknown risks and uncertainties and other factors, which may cause Parkland's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; competitive action by other companies; refining and marketing margins; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; changes in environmental and other regulations; and other factors, many of which are beyond the control of Parkland. Any forward-looking statements are made as of the date hereof and Parkland does not undertake any obligation, except as required under applicable law, to publicly update or revise such statements to reflect new information, subsequent or otherwise. Parkland wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Readers should also refer to the section Business Risks at the end of this MD&A and in the 2010 Annual Information Form for additional information on risk factors and other events that are not within Parkland's control. Parkland's future financial and operating results may fluctuate as a result of these and other risk factors.

Consolidated Highlights

	Three months ended				Year ended			
(in millions of Canadian dollars except volume and per litre amounts)		December 31, 2010		December 31, 2009	% Change		December 31, 2010		December 31, 2009	% Change
Fuel volume (millions of litres)		980.4		728.0	35		3,500.3		2,742.0	28
Net sales and operating revenues		830.8		542.4	53		2,913.4		2,020.0	44
Gross profit		101.5		56.5	80		338.4		249.1	36
Operating and direct costs		46.6		28.9	61		159.4		106.9	49
Marketing, general and administrative		19.4		13.9	40		75.6		51.4	47
Amortization expense		16.7		9.8	70		62.5		37.9	65
Gain on disposal of property, plant and equipment		(0.5)		(0.5)	-		(3.1)		(0.9)	244
Refinery remediation accrual		0.1		0.1	-		0.3		0.4	(25)
Accretion on asset retirement obligation		(0.2)		0.1	(300)		0.1		0.2	(50)
Accretion on convertible debenture		1.5		0.1	1,400		2.1		0.1	2,000
Interest expense		6.6		1.9	247		25.2		5.7	342
Earnings before income taxes		11.3		2.1	438		16.3		47.5	(66)
Income tax (recovery) expense		0.5		(2.3)			(13.9)		(1.1)	
Net earnings		10.8		4.5	140		30.2		48.6	(38)
EBITDA[1]		35.5		13.7	159		103.4		90.8	14
Distributable cash flow[2]		28.4		14.7	93		75.4		81.6	(8)
Distributions		16.5		15.1	9		65.4		62.3	5
Distribution payout ratio	%	58	%	102		%	87	%	76	
Cents per Litre										
Net sales and operating revenues	¢	84.74	¢	74.51	14	¢	83.23	¢	73.67	13
Gross margin	¢	10.35	¢	7.76	33	¢	9.67	¢	9.08	6
Operating and direct costs	¢	4.75	¢	3.97	20	¢	4.55	¢	3.90	17
Marketing, general and administrative	¢	1.98	¢	1.91	4	¢	2.16	¢	1.87	15
Amortization expense	¢	1.70	¢	1.35	27	¢	1.79	¢	1.38	29
Interest expense	¢	0.67	¢	0.26	158	¢	0.72	¢	0.21	246
Earnings before income taxes	¢	1.15	¢	0.29	300	¢	0.47	¢	1.73	(73)
Income tax (recovery) expense	¢	0.05	¢	(0.32)		¢	(0.40)	¢	(0.04)	
Net earnings	¢	1.10	¢	0.62	78	¢	0.86	¢	1.77	(51)
EBITDA	¢	3.62	¢	1.88	92	¢	2.95	¢	3.31	(11)

(1) Please refer to the Non-GAAP Measures section in the MD&A for a definition of EBITDA.
(2) Please see Distributable Cash Flow reconciliation table in the MD&A.

Management's Discussion and Analysis

For the three and twelve months ended December 31, 2010.

The information in this document is in Canadian dollars and is current as of March 14, 2011.

OVERVIEW OF BUSINESS

Parkland Fuel Corporation ("Parkland" or "the Corporation") is Canada's largest independent marketer and distributor of refined petroleum products, managing a nationwide network of fuel sales channels for retail, commercial, wholesale and home heating fuel customers.

Parkland's mission is to be the most trusted source of convenience for fuel and related products focused on non-urban markets.

A focus on the non-urban market has led to growth in communities where, for various reasons, there often exist strong local connections and brand loyalty to the brands acquired and operated by Parkland.

The Corporation's family of retail and commercial brands includes: Fas Gas Plus, Race Trac Gas, Bluewave Energy, Columbia Fuels, Great Northern Oil, Neufeld Petroleum & Propane, United Petroleum Products and Island Petroleum.

Parkland is Canada's local fuel company, delivering a complete range of fuel and related products and serving Canadian communities through local operators focused on customer service.

CONVERSION TO PARKLAND FUEL CORPORATION

On December 31, 2010 Parkland Income Fund (the "Fund") completed the previously announced reorganization of the Fund to a corporation (the "Conversion") pursuant to a plan of arrangement under the Business Corporations Act (Alberta). Pursuant to the Conversion, all outstanding units of the Fund and all outstanding Class B units and Class C units of Parkland Holdings Limited Partnership were exchanged for common shares in the capital of the Corporation (the "Common Shares") on a one-for-one basis.

All of the covenants and obligations of the Fund under the 6.5% series 1 convertible unsecured subordinated debentures of the Fund and the 5.75% series 2 convertible unsecured subordinated debentures of the Fund were assumed by the Corporation in connection with the Conversion.

Upon conversion, Parkland Fuel Corporation assumed the business of Parkland Income Fund, and Parkland Income Fund ceased to exist. Therefore, by convention, for the purpose of reporting the Fund's results for 2010, the name Parkland Fuel Corporation is used in this document.

FUEL MARKETING SEGMENT

Parkland's fuel marketing segment, which accounted for 92% of net sales and operating revenue and 72% of gross profit in 2010, is the Corporation's most important segment and the focus of operations.

Parkland manages fuel distribution and marketing through four different divisions:

- Parkland Commercial Fuels
- Parkland Retail Fuels
- Parkland Supply & Wholesale
- Parkland Transport

PARKLAND COMMERCIAL FUELS

Commercial Overview

Parkland Commercial Fuels is the Corporation's fastest growing division, and a nationwide operation serving commercial, industrial and residential customers from coast-to-coast. This division delivers bulk fuel, propane, heating oil, lubricants, agricultural inputs, oilfield fluids and other related products and services to commercial, industrial and residential customers through an extensive nationwide delivery network.

Fuel volumes from Parkland Commercial Fuels accounted for 42% of the Corporation's total fuel distribution in 2010. Commercial fuel sales accounted for $1,093.6 million in revenue in 2010, $431.0 million in 2009 and $478.6 million in 2008.

Parkland Commercial Fuels' family of successful brands includes: Bluewave Energy, Columbia Fuels, Great Northern Oil, Neufeld Petroleum & Propane, United Petroleum Products, Island Petroleum and Race Trac cardlock locations. All of the brands feature quality products and services and a commitment to locally delivered, premium customer service.

Commercial Fuels - Volume and Margin Review

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Volume (millions of litres)				
Gasoline & Diesel	340	132	1,158	488
Heating Oil	69	12	180	17
Propane	40	41	120	135
Commercial Sub-total	449	185	1,458	640
Net sales and operating revenue (millions of Canadian dollars)				
Gasoline & Diesel	258.7	102.7	884.8	352.8
Heating Oil	59.4	11.7	144.6	15.2
Propane	20.6	20.6	64.2	63.0
Commercial Sub-total	338.7	135.0	1,093.6	431.0
Fuel gross profit (millions of Canadian dollars)				
Gasoline & Diesel	22.1	6.6	71.8	22.4
Heating Oil	11.9	3.3	30.6	4.3
Propane	6.8	6.7	20.0	22.6
Commercial Sub-total	40.8	16.6	122.4	49.3
Net sales and operating revenue (cents per litre)				
Gasoline & Diesel	76.16	77.80	76.41	72.30
Heating Oil	86.09	97.50	80.38	89.41
Propane	51.21	50.24	53.32	46.67
Commercial Average	75.45	72.97	74.99	67.34
Fuel gross profit (cents per litre)				
Gasoline & Diesel	6.51	5.00	6.20	4.59
Heating Oil	17.25	27.50	17.01	25.29
Propane	16.90	16.34	16.61	16.74
Commercial Average	9.09	8.97	8.39	7.70

Operational Review

For the three months ended December 31, 2010, Parkland Commercial Fuels' volumes increased 143% to 449 million litres compared with 185 million litres for the same period in 2009. For the year ended December 31, 2010, volumes increased 128% to 1.5 billion litres compared with 0.6 billion litres in 2009. This increase was largely the result of the acquisition of Bluewave Energy in January 2010.

Sales volumes also increased due to stronger economic activity in the oil and gas, mining, forestry, trucking and other commercial industries in Parkland's core markets. For the three months ended December 31, 2010, the Canadian Association of Oilwell Drilling Contractors (CAODC) reported an average rig utilization rate of 50% compared with 33% for the same period in 2009. The CAODC reported an annual average rig utilization rate of 41% for 2010 compared with 25% for 2009.

While sales on a cents per litre basis will fluctuate based on the market's demand for fuel, net fuel gross profit on a cents per litre basis drives the profitability of the commercial fuels division. These margins improved by 1% for the three months ended December 31, 2010, and by 9% for the year ended December 31, 2010 due primarily to the acquisition of Bluewave Energy in January 2010 and the related addition heating oil, a higher margin delivered product.

During 2010, a major focus at Parkland was the successful integration of Bluewave Energy and the realization of business synergies. Parkland originally targeted $2 million in synergies before the end of 2010. However, the integration is ahead of plan, achieving $3.7 million in synergies in 2010 through administrative cost savings, efficiencies in procurement and the amalgamation of offices in Western Canada.

Divisional Outlook

The acquisition of Bluewave Energy, Island Petroleum and Shell Canada's aftermarket lubricant business and distribution rights for select markets represent an additional 740 million litres in annualized volume for the commercial fuels division. The commercial businesses that Parkland acquired in 2010 will drive increased sales volumes in 2011.

Increased economic activity is also expected to drive fuel sales. The outlook for commercial fuel sales volumes continues to improve as activity in the oil and gas, mining, forestry, trucking and other commercial industries increases.

The CAODC reported that rig utilization continued to increase in 2011 with an average utilization rate for January and February 2011 of 70% compared with 59% for the same period in 2010. Increased activity in the oil and gas sector as well as other industrial sectors drives fuel consumption, which ultimately support greater fuel sales.

Parkland continues to observe increased economic activity in critical markets such as Northern Alberta and British Columbia.

Parkland will continue to evaluate potential commercial acquisitions in 2011, and will be opportunistic where it is possible to purchase immediately accretive commercial operations that are profitable at regular fuel prices.

In addition to acquisitions, Parkland Commercial Fuels will be focused on growing fuel volumes organically by aggressively targeting sectors where the Corporation has a competitive advantage, as well as by enhancing sales effectiveness. There is also an opportunity to increase lubricant sales through the national lubricant team and platform established in the fourth quarter to support the Shell lubricants business.

Enhancing alignment of priorities with business objectives will also be a focus in 2011. The commercial division will improve customer service by linking bonuses to service results and will provide additional training to support excellence in this area. Furthermore, by extending the safety bonus to all safety sensitive positions in the division, Parkland Commercial Fuels expects to highlight health and safety as a top priority.

Parkland Commercial Fuels will continue to implement best in class processes to support leading edge delivery and operational effectiveness.

Markets

On December 31, 2010 Parkland Commercial Fuels had 133 commercial locations.

Province	Cardlock	Office	Office & Cardlock	Other	Grand Total
Alberta	15	11	10	2	38
British Columbia	20	9	10	1	40
New Brunswick	–	–	1	–	1
Nova Scotia	3	9	4	–	16
Northwest Territories	–	–	2	–	2
Ontario	–	10	7	–	17
Prince Edward Island	12	5	–	–	17
Saskatchewan	–	1	–	–	1
Yukon	–	–	1	–	1
Grand Total	50	45	35	3	133

Brands

Province	Bluewave Energy	Neufeld Petroleum & Propane	Island Petroleum	Columbia Fuels	United Petroleum Products	Other	Grand Total
Alberta	12	21	–	–	–	5	38
British Columbia	7	4	–	17	10	2	40
New Brunswick	1	–	–	–	–	–	1
Nova Scotia	16	–	–	–	–	–	16
Northwest Territories	2	–	–	–	–	–	2
Ontario	17	–	–	–	–	–	17
Prince Edward Island	2	–	14	–	–	1	17
Saskatchewan	1	–	–	–	–	–	1
Yukon	–	–	–	–	–	1	1
Grand Total	58	25	14	17	10	9	133

Parkland's cardlock facilities are operated under various brands, including Bluewave Energy, Island Petroleum, United Petroleum Products, Esso, Race Trac, Columbia Fuels, Petro-Canada and Neufeld Petroleum & Propane.

Customers

Parkland has a diverse commercial customer base operating across a broad cross-section of industries with no single customer accounting for more than 5% of consolidated revenue. This customer base includes:

- Oil & gas industry participants;
- Mining operations;
- Forestry operations;
- Agricultural operations;
- Residential heating fuel clients; and
- Other industrial operations.

Because of its customer diversity, as well as the wide geographic scope of Parkland's service offering and the range of segments in which it operates, a downturn in the activities of individual customers or customers in a particular industry is not expected to have a material adverse impact on the operations of Parkland.

PARKLAND RETAIL FUELS

Parkland Retail Fuels operates and services a nationwide network of retail service stations that serve Canadian motorists from coast-to-coast.

Fuel volumes from Parkland Retail Fuels accounted for 42% of the Corporation's total fuel distribution in 2010. Retail fuel marketing accounted for $1,146.8 million in sales revenue in 2010, $1,055.6 million in 2009 and $1,156.4 million in 2008.

Parkland is a Retail Branded Distributor for Imperial Oil Limited with locations in Saskatchewan, Alberta, British Columbia and Ontario operating under the Esso brand. Parkland has rebranded all former Sunoco sites to either Esso, Race Trac, or Fas Gas Plus as a result of the 2009 Suncor/Petro-Canada merger. Parkland is also a franchisee of Esso's "On the Run" brand.

Parkland operates service stations under three business models:

Independent Dealer Operated – These sites are owned or controlled by third parties who contract with Parkland for fuel supply for the site. Parkland profits are derived from the fuel sold to these operators.

Parkland Operated – These sites are owned, controlled and operated by Parkland, and Parkland directly benefits from all sales to the consumer in this type of station. The Corporation employs and manages all station employees, as well as owns and manages the convenience store inventories.

Commission Operated – Where possible, Parkland is transitioning its owned or controlled retail gas stations to a commission operated business model. Rather than employees, these stations are managed by independent entrepreneurs ("retailers") who provide and manage staff in exchange for a commission on fuel volumes sold, and pay rent to Parkland based on a percentage of non-fuel sales revenue.

Converting stations to a commission operated model offers several advantages including reducing overhead and operating costs, transferring ownership of convenience store inventories and their corresponding shrinkage risks to the retailer, and leveraging the initiative and work ethic of these entrepreneurs who are incented to achieve Parkland's business objectives.

The retail fuel business is highly competitive, with margins ultimately dependent on 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 retail fuel sales are dominated by major oil companies and by more recent entrants such as grocery store chains and large retailers. Parkland's 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 unique brands within its existing network and through the acquisition of new sites.

Retail Fuels - Volume and Margin Review

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Volume (millions of litres)				
Sales to Dealer	232	223	908	897
Sales to Consumer	143	137	562	545
Retail Sub-total	375	360	1,470	1,442
Net sales and operating revenue (millions of Canadian dollars)				
Sales to Dealer	185.8	168.0	697.1	640.3
Sales to Consumer	117.8	109.3	449.7	415.3
Retail Sub-total	303.6	277.3	1,146.8	1,055.6
Fuel gross profit (millions of Canadian dollars)				
Sales to Dealer	10.9	10.0	40.7	39.0
Sales to Consumer	13.3	14.2	57.8	62.2
Retail Sub-total	24.2	24.2	98.5	101.2
Net sales and operating revenue (cents per litre)				
Sales to Dealer	80.05	75.34	76.77	71.38
Sales to Consumer	82.19	79.78	80.04	76.20
Retail Average	80.87	77.03	78.02	73.20
Fuel gross profit (cents per litre)				
Sales to Dealer	4.70	4.48	4.48	4.35
Sales to Consumer	9.28	10.36	10.29	11.41
Retail Average	6.45	6.72	6.70	7.02

Operational Review

For the three months ended December 31, 2010, Parkland Retail Fuels' volumes increased 4% to 375 million litres compared with 360 million litres for the same period in 2009. For the year ended December 31, 2010, volumes increased 2% to 1.47 billion litres compared with 1.44 billion litres in 2009. This increase was entirely due to growth in same store sales, added locations, and offset by the rationalization of underperforming stations.

While sales on a cents per litre basis will fluctuate based on the market's demand for fuel, net fuel gross profit on a cents per litre basis drives the profitability of the retail fuels division. These margins decreased by 4.1% for the three months ended December 31, 2010, and by 4.5% for the year ended December 31, 2010 due to the entry of new competitors in certain markets who cut prices to gain market share, and due to other changes in market pricing. As can be seen by this comparison, the competitive pressures were not as pronounced in the fourth quarter as they were through the balance of the year, as the competitive landscape began to normalize.

During 2010, Parkland Retail Fuels launched two television advertising campaigns for Fas Gas Plus that built both volume and brand equity.

The retail division made substantial progress in 2010 in gaining compliance with the Europay MasterCard and Visa ("EMV") payment system, the global standard for chip-based credit and debit card payments that will soon be required for all retailers in Canada. Parkland Retail Fuels is on track to be fully EMV certified by the middle of 2011, and will meet all applicable deadlines for EMV certification.

Growing Parkland's retail network is part of the Corporation's organic growth strategy. This includes building new sites, rebuilding leased sites, and refreshing existing sites. During 2010, the retail division built 12 retail sites across Canada that equate to approximately 40 million litres in annual fuel throughput. Two retail sites received a refresh to update their look to align with the retail division's branding guidelines.

Growing the independent dealer network is also an important source of organic growth in fuel volumes for the retail division. During 2010 this was a strong focus with an emphasis on capitalizing on new opportunities on both the West and East Coasts of Canada.

Divisional Outlook

Increased economic activity in Parkland Retail Fuels' core markets is expected to contribute to volume growth in 2011. Business activity is picking up across these markets, especially in Northern Alberta and British Columbia, and this is expected to increase mileage from motorists in these areas.

Parkland will continue to evaluate potential retail acquisitions in 2011, and will be opportunistic where it's possible to purchase immediately accretive retail operations that are profitable at regular fuel prices. There will also be a continued focus on non-urban market penetration and new dealer signings.

Parkland will continue to promote and develop the Esso "On The Run" franchise through its dealer network in 2011. The retail division also launched its third Fas Gas Plus TV advertising campaign in January 2011 to continue to build on the volume growth and brand equity that the 2010 advertising program established.

Fas Gas Plus currently offers customers a cash back loyalty program known as the Litre Log™. Customers accumulate three cents per litre each time they fuel up, and after 12 fills or 200 litres, the customer receives their loyalty reward in the form of cash back. While this paper based loyalty program has served Parkland's customers well, it is important to ensure that Parkland's offering remains competitive compared with other loyalty offerings in the market. The Corporation is in the preliminary stages of investigating potential enhancements to this loyalty program by running a number of small pilot studies in isolated communities to assess the impact of delivering the loyalty program electronically.

Markets

Province	Parkland Operated	Commission Operated	Independent Dealer Operated	Grand Total
Alberta	10	71	196	277
British Columbia	3	12	84	99
Manitoba		12	11	23
Nova Scotia			3	3
Northwest Territories			3	3
Ontario		1	72	73
Prince Edward Island			1	1
Saskatchewan		32	98	130
Yukon Territories			10	10
Grand Total	13	128	478	619

Brands

	Fas Gas Plus	Race Trac	Esso	Other	Grand Total
Parkland Operated	8		4	1	13
Commission Operated	88	2	23	15	128
Independent Dealer Operated	55	131	265	27	478
	151	133	292	43	619

Parkland constantly strives to increase same store sales of merchandise and fuel, and overall sales volumes. The actual number of stations may increase or decrease as new sites are added and under-performing sites are closed, sold or as dealer contracts expire.

Fas Gas Plus – Fas Gas Plus is a community focused independent brand that brings consumers an urban offering in non-urban markets. In 2010, Parkland's strategy was to continue to maximize penetration of its Fas Gas Plus brand throughout its traditional non-urban markets by investing in the Fas Gas Plus station upgrade and conversion program.

Esso – The Esso Retail Branded Distributorship agreement provides Parkland with the opportunity to offer Esso's nationally recognized brand to independent operators or within the Corporation's operated network in Alberta, Saskatchewan, British Columbia, Ontario 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 or markets where the Fas Gas Plus or Esso brands are not suited and is an important part of Parkland's brand portfolio.

Customers

Parkland Retail Fuels sells products to Canadian motorists through its network of retail gas stations. Fuel products sold through this network include gasoline and diesel fuel.

PARKLAND SUPPLY & WHOLESALE

Parkland Supply & Wholesale is responsible for managing Parkland's fuel supply contracts, purchasing fuel from refiners, and serving wholesale and reseller customers.

Fuel volumes from Parkland Supply & Wholesale accounted for 16% of the Corporation's total fuel distribution in 2010. Wholesale fuel marketing accounted for $534.7 million in sales revenue in 2010, $476.7 million in 2009 and $676.5 million in 2008.

Refinery Contracts – Fuel contracts are maintained with eight oil refiners and include minimum volume requirements for certain agreements. This portfolio of contracts allows Parkland to obtain fuel supplies at highly competitive prices and to enhance the security of the Corporation's fuel supply by diversifying away the supply risk associated with any one supplier.

Maintaining lifting rights at a multitude of refineries and primary terminals across Canada provides Parkland with the flexibility to serve customers in a timely fashion.

Bowden – Parkland owns a refinery and 200,000 barrel fuel storage facility at Bowden, Alberta which suspended production in 2001. Parkland has used the site to provide chemical processing services and as a storage site for internal use and under contract to third parties. These services and related revenues offset some of the ongoing costs of maintaining the site. Further options to develop this asset, particularly expanding its use as a storage and distribution terminal as well as for chemical processing, are under review.

Operational Review

On December 31, 2010 Parkland received notice that the current supply contract with Suncor Energy Inc. ("Suncor") will be terminated on December 31, 2013. Parkland currently purchases approximately one billion litres of fuel from Suncor annually under this agreement, which is priced using a formula by which Parkland shares in a portion of the refinery margins.

This contract accounts for less than a third of Parkland's total fuel supply, and the Corporation is continually negotiating new supply agreements to optimize its supply portfolio. In anticipation of receiving Suncor's notice of termination, Parkland has already started developing alternate supply options and related facilities to economically replace the fuel supply contract with Suncor. Parkland does not anticipate any issues with replacing the Suncor fuel supply volumes for 2014 if negotiations with Suncor are unsuccessful.

Divisional Outlook

Refiners' margins improved in the fourth quarter and continued to remain strong through January, even though inventories of fuel products remained relatively high in North America.

Product supplies appear to be adequate to meet forecasted commitments.

PARKLAND TRANSPORTATION

Parkland Transportation is responsible for distribution of fuel to Parkland's retail and commercial locations. Fuel is delivered to Parkland's service stations and commercial customers by a combination of the Corporation's own fleet of tractor/trailers and third party commercial carriers. Operating and owning a fleet provides Parkland with improved control of quality and timeliness of service. Parkland staff schedule and coordinate the pick-up of fuel from the refineries and terminals by either Parkland carriers or by third party wholesale customers.

Wiebe Transport – The 2007 and 2008 acquisition of trucking fleets from Neufeld Petroleum and Propane and Wiebe Transport added long-haul trucking capacity to Parkland's fleet. The counter-seasonal demands of the propane and fertilizer businesses allow the Corporation to improve overall fleet efficiency.

As part of the operations, mechanical repair and maintenance facilities are located in both Grande Prairie and La Crete, Alberta, allowing the Parkland long-haul fleet to be serviced internally.

Petrohaul – With fuel transportation assets located across Western Canada, Petrohaul oversees Parkland's western regional fuel hauling needs. Petrohaul manages and distributes fuel to retail and commercial locations across Western Canada and the Territories. Petrohaul's fleet is satellite-dispatched with GPS tracking to ensure efficient on-time customer deliveries.

HUMAN RESOURCES

Parkland had approximately 1,610 employees at December 31, 2010, including 400 staff from the acquisition of Bluewave, 150 retail convenience store personnel stationed throughout Western Canada and 200 employees in its Red Deer, Alberta head office. Parkland is moving away from corporate owned and operated retail sites and further towards commission operated sites in order to enhance performance at individual retail locations. This move will further reduce the number of convenience store employees managed by Parkland.

Our Values

Integrity: We will always do the right thing

People: Respect the needs of customers, employees and others

Teamwork: Achieve greater results by working together

Success: Set and achieve challenging goals

Parkland's employees are also owners of the Corporation, investing in Parkland regularly through its share/unit purchase plan. A profit sharing plan further contributes to the entrepreneurial spirit of Parkland's employees, fostering a sense of ownership and pride throughout Parkland. Parkland continues to recruit and attract top talent in order to carry out its strategic objective of continued growth by acquisition. Key positions have been filled despite the competitive labor market in Western Canada and Parkland will continue to focus on talent development and performance management. By constantly adhering to the Corporation's values of integrity, people, teamwork and success, Parkland believes it has the right tools to retain and develop the talent required to achieve the last of the Corporation's values – success.

GROWTH STRATEGY — ACCRETIVE ACQUISITIONS

Parkland's fuel volumes have grown at a compound annual growth rate ("CAGR") of 24% over the past four years as the Corporation continues to execute on its plan to grow petroleum product sales volumes through accretive acquisitions. Parkland aims to continue this growth trajectory over the next five years.

There are four primary sources of growth for Parkland:

1) **Acquisition of large independent fuel marketers** — Large independent fuel marketers are defined as those that have annual fuel volume sales between 200 and 1,500 million litres. There are approximately 15 independent fuel marketers remaining in Canada of this size. Parkland's 2010 acquisition of Bluewave Energy fell into this category.

2) **Acquisition of small independent fuel marketers** — Small independent fuel marketers have annual fuel volume sales of less than 200 million litres. Parkland's recent acquisition of Island Petroleum fell into this category.

3) **Acquisition of business from major Canadian refiners** — Major Canadian petroleum refiners include Imperial Oil, Shell, and Suncor. In some cases, these major refiners are actively divesting parts of their downstream marketing channels to focus on their core competencies in the upstream and midstream businesses. Parkland's recently announced acquisition of Shell Canada's aftermarket lubricant business and distribution rights for select markets fell into this category.

4) **Organic growth** — This includes retail gas station upgrades, acquiring new retail dealers, and building new retail and commercial outlets. Organic growth accounts for approximately 2% of Parkland's fuel volume CAGR.

As the largest independent fuel marketer in Canada, Parkland is the partner of choice when independents and majors look to divest their fuel marketing business.

Why Major Petroleum Refiners Divest Their Marketing Businesses to Parkland

Parkland provides majors with an effective way to outsource their downstream marketing to a credit worthy, well capitalized organization that can consolidate billing, manage credit risk, and effectively manage and protect the majors' brands. With coast-to-coast operations, Parkland has the scope to quickly bring on and optimize business from the major refiners.

Approach to Acquisitions

Parkland intends to continue to be proactive, focused and disciplined in its approach to such acquisitions.

Parkland seeks to make acquisitions that:

- are immediately accretive to cash flow from operating activities;
- increase fuel sales volumes in strategic markets;
- build non-fuel profits to enhance the long-term stability of the enterprise;
- optimize the Corporation's supply contracts; and
- diversify the customer base.

Recent Acquisitions

Bluewave Energy – Bluewave Energy ("Bluewave"), based in Dartmouth, Nova Scotia, was acquired on January 31, 2010 and remains Shell's largest branded distributor in Canada. Bluewave helped Parkland Commercial Fuels achieve national coverage with significant added market presence in Alberta, British Columbia, Ontario, and the Maritime provinces.

Bluewave, which was acquired for $232.0 million, added 650 million litres in annual fuel sales, a fleet of 185 fuel delivery trucks and 48 new branch locations across Canada. The acquisition was strategically significant, bringing together Canada's two most active consolidators and combining two very active acquisition pipelines.

Shell Lubricants – On September 30, 2010, Parkland acquired the right to sell lubricants and car care products branded with Shell or Pennzoil-Quaker State trademarks to a specific list of customer accounts and regions for ten years under Shell's Alliance Distributorship model. The agreement is expected to add 12 million litres in direct lubricant sales and 8 million litres in bulk lubricant sales on an annual basis, which would increase Parkland's total lubricant sales portfolio to approximately 37 million litres per year.

Island Petroleum – Acquired on December 30, 2010, Island Petroleum Products Ltd. ("Island Petroleum") is the largest heating oil distributor on Prince Edward Island. Acquired for $23.9 million, half of which was paid in equity, the acquisition adds 70 million litres in annual fuel sales to Parkland's portfolio.

NON-GAAP MEASURES

Parkland's financial results are prepared under Canadian Generally Accepted Accounting Principles (GAAP). However, in this document there are references to non-GAAP measures such as EBITDA and Distributable Cash Flow.

EBITDA refers to Earnings Before Interest on Long-Term Debt, Income Tax Expense, Amortization, Refinery Remediation, Accretion Expense on Asset Retirement Obligations, Interest and Accretion on Convertible Debentures and Loss (Gain) on Disposal of Property, Plant and Equipment. It can be calculated from the GAAP amounts included in Parkland's financial statements. Parkland 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 Parkland's debt and equity holders. Parkland's definition of EBITDA may not be consistent with other providers of financial information and therefore may not be comparable.

Standardized distributable cash flow is a measure defined by the Canadian Institute of Chartered Accountants (CICA). Parkland's adjusted standardized distributable cash flow is referred to as distributable cash flow and contains certain adjustments to standardized distributable cash flow required to better reflect the cash flow available for dividends to shareholders.

Reconciliation of Distributable Cash Flow

	Three months ended	
(in 000's of Canadian dollars except percentages)	December 31, 2010	December 31, 2009
Cash flow from operating activities	(45,822)	3,976
Less: Total capital expenditures and intangibles	(13,571)	(16,640)
Standardized distributable cash flow[1]	(59,393)	(12,664)
Add back (deduct):		
Growth capital expenditures and intangibles	10,470	14,457
Proceeds on disposal of capital items	2,393	2,558
Change in non-cash working capital	74,885	10,373
Distributable cash flow	28,355	14,724
Distributions	16,525	15,059
Distribution payout ratio	% 58	% 102

	Year ended	
(in 000's of Canadian dollars except percentages)	December 31, 2010	December 31, 2009
Cash flow from operating activities	4,469	112,392
Less: Total capital expenditures and intangibles	(40,872)	(43,590)
Standardized distributable cash flow[1]	(36,403)	68,802
Add back (deduct):		
Growth capital expenditures and intangibles	29,207	31,984
Proceeds on disposal of capital items	6,367	4,962
Change in non-cash working capital	76,268	(24,109)
Distributable cash flow	75,439	81,639
Distributions	65,437	62,284
Distribution payout ratio	% 87	% 76

(1) Standardized distributable cash flow is a measure defined by the Canadian Institute of Chartered Accountants (CICA). See discussion below.

Distributable Cash Flow

Distributable cash flow exceeded distributions in the fourth quarter by $11.8 million and by $10.0 million for the year ended December 31, 2010. The distribution payout ratio for the fourth quarter of 2010 was 58% compared with 102% in the last quarter of 2009. For the twelve month period ended December 31, 2010 the distribution payout ratio was 87% versus 76% in the prior year.

The decrease in the distribution payout ratio for the fourth quarter was the result of increased distributable cash flow arising from increased net earnings excluding amortization costs. The increase in net earnings excluding amortization costs was principally the result of strong commercial volumes associated with colder weather in 2010 versus 2009, the inclusion of Bluewave's early winter operations which were not included in last year's fourth quarter results and improved refiners' margins. Movements in non-cash working capital are excluded from distributable cash flow.

The increase in the distribution payout ratio in 2010 versus 2009 was the result of $6.2 million in decreased distributable cash flow and $3.2 million in higher distributions. The decrease in distributable cash flow was the net result of a number of factors that offset the increased EBITDA that was generated as a result of the Corporation's acquisitions. These offsets included higher interest costs to finance the Bluewave acquisition, higher marketing, general and administrative expenses to support the ERP implementation combined with lower refining margins during the first three quarters and abnormally warm winter conditions in the first quarter of 2010 that adversely affected heating oil and propane sales.

With the acquisitions of Bluewave and Columbia, the seasonality of Parkland's financial results is expected to change. Peak earnings in the past have tended to be driven by higher retail volumes and refiners' margins during the second and third quarters. However, the commercial and heating fuel businesses of Bluewave and Columbia are expected to drive increased earnings in the fourth and first quarters, providing a seasonal balance to Parkland's summer business operations.

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 including intangible assets, in addition to allowing for the proceeds received from the sale of capital items.

Maintenance capital 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 of productive capacity. Parkland defines its productive capacity as volume of fuel and propane sold, volume of convenience store sales, volume of lubricants sales, agricultural inputs and delivery capacity. The adjustment for maintenance capital in the calculation of standardized distributable cash is capital expenditures during the period excluding the cost of any growth asset acquisitions or proceeds of any asset dispositions. Parkland believes that the current capital programs, based on the current view of its assets and opportunities and the outlook for fuel supply and demand and industry conditions, should be sufficient to maintain productive capacity in the medium term. Due to the risks inherent in the industry, particularly the reliance on external parties for supply of fuel and propane and 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 dividends or not, will be sufficient to maintain or increase production levels or cash flow from operating activities. As Parkland strives to maintain sufficient credit facilities and appropriate levels of debt, the seasonality of the business is not currently expected to influence dividend policies.

Parkland's calculation of standardized distributable cash has no adjustment for long-term unfunded contractual obligations. Parkland believes the 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 period of time.

Although it is typical for Parkland's cash flow to have seasonal fluctuations, the current intention of Parkland's Directors is to pay consistent regular monthly dividends throughout the year based on estimated annual cash flow. Parkland's Directors review distributions and dividends quarterly giving consideration to current performance, historical and future trends in the business, expected sustainability of those trends, as well as capital betterment requirements to sustain performance.

Commencing January 2011, Parkland started to pay dividends on a monthly basis, maintaining the prior distribution payment cycle of the fund, to align with the preferences of the Corporation's shareholders. Parkland intends to pay a monthly dividend of $0.085 per share, equivalent to $1.02 per share annually.

Prior to setting the 2011 dividend policy, Parkland's Directors and Management rigorously stress tested annual cash flow forecasts to set a sustainable dividend level after considering Parkland's seasonality, debt service obligations, maintenance capital expenditures, corporate income taxes and exposure to fluctuations in fuel margins.

CASH FLOW, NET EARNINGS AND EBITDA COMPARED TO DISTRIBUTIONS

	Three months ended	
(in 000's of Canadian dollars)	December 31, 2010	December 31, 2009
Cash flow from operating activities	(45,822)	3,976
Net earnings	10,798	4,478
EBITDA[1]	35,494	13,698
Distributions	16,525	15,059
Excess (shortage) of cash flow from operating activities relative to distributions	(62,347)	(11,083)
Excess (shortage) of cash flow from net earnings relative to distributions	(5,727)	(10,581)
Excess (shortage) of cash flow from EBITDA relative to distributions	18,969	(1,361)

	Year ended	
(in 000's of Canadian dollars)	December 31, 2010	December 31, 2009
Cash flow from operating activities	4,469	112,392
Net earnings	30,194	48,604
EBITDA[1]	103,422	90,840
Distributions	65,437	62,284
Excess (shortage) of cash flow from operating activities relative to distributions	(60,968)	50,108
Excess (shortage) of cash flow from net earnings relative to distributions	(35,243)	(13,680)
Excess (shortage) of cash flow from EBITDA relative to distributions	37,985	28,556

(1) Please refer to the Non-GAAP Measures section in the MD&A for a definition of EBITDA.

Net earnings include significant non-cash charges including amortization and accretion expense. These non-cash charges do not impact Parkland's ability to meet its distribution and dividend payments. Cash flow from operating activities in 2010 has been lower than distributions as a result of significant working capital requirements, primarily increases in accounts receivable and higher interest costs from financing the purchase of Bluewave Energy. The $80.8 million increase in accounts receivable in 2010 included in net changes in non-cash working capital in the Consolidated Statement of Cash Flows excludes the $83.0 million of accounts receivable included in the acquisition value of Bluewave Energy acquired on January 31, 2010 and $6.7 million in accounts receivable included in the acquisition value of Island Petroleum acquired on December 30, 2010. The increase of $80.8 million in accounts receivable was due to seasonal volume increases in commercial accounts and increases in other non-trade receivables including government fuel taxes. Significant efforts are planned in 2011 to reduce accounts receivable balances in relation to days' sales.

For the accounts receivable that were impacted by the implementation of Parkland's enterprise resource planning ("ERP") system, balances outstanding over 60 days reduced by $8.4 million from September 30, 2010 to December 31, 2010.

Net earnings in 2010 were impacted by $24.6 million in higher amortization costs in 2010 compared with 2009. EBITDA has been sufficient to fund cash distributions on an annual basis.

Sequential Quarterly Review of Income

	Three months ended,				
	2010				2009
($000's except per share/unit amounts)	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
Net sales and operating revenue	830,837	796,534	605,799	680,250	542,394
Cost of sales	729,319	718,273	522,635	604,782	485,900
Gross profit	101,518	78,261	83,164	75,468	56,494
Expenses					
Operating and direct costs	46,601	39,194	37,486	36,166	28,891
Marketing, general and administrative	19,423	20,932	17,752	17,435	13,905
Amortization	16,707	16,470	15,616	13,800	9,788
Refinery remediation	75	75	30	120	105
Accretion expense on asset retirement obligations	(200)	227	(10)	35	120
Interest on long-term debt	4,969	5,187	5,221	3,440	1,413
Interest and accretion on convertible debentures	3,117	1,810	1,791	1,761	633
(Gain) loss on disposal of property, plant and equipment	(491)	(1,344)	(1,643)	359	(504)
	90,201	82,551	76,243	73,116	54,351
Earnings (loss) before income taxes	11,317	(4,290)	6,921	2,352	2,143
Income tax expense (recovery)					
Current	28	(28)	3,500	(3,500)	(2,450)
Future	491	(4,710)	(10,084)	409	115
	519	(4,738)	(6,584)	(3,091)	(2,335)
Net earnings	10,798	448	13,505	5,443	4,478
Comprehensive income	10,798	448	13,505	5,443	4,478
Retained earnings, beginning of period	-	-	-	-	-
Allocation to Class B Limited Partners	(523)	(22)	(660)	(269)	(241)
Allocation to Class C Limited Partners	(352)	(15)	(449)	(254)	(497)
Allocation to Unitholders	(9,923)	(411)	(12,396)	(4,920)	(3,740)
Retained earnings, end of period	-	-	-	-	-
Net earnings per share/unit					
- basic	$ 0.21	$ 0.01	$ 0.25	$ 0.11	$ 0.09
- diluted	0.21	0.01	0.25	0.11	0.09
Share/units outstanding	53,164	52,037	51,957	51,871	50,194

THREE MONTHS ENDED DECEMBER 31, 2010

The highlights for the fourth quarter of 2010 are as follows:

- Fuel sales volumes increased 35% to 980 million litres compared with 728 million litres in Q4 2009;
- EBITDA returned to expected norms and increased 159% to $35.5 million compared with $13.7 million in Q4 2009. Net earnings increased by 140% to $10.8 million compared with $4.5 million in Q4 2009;
- Bluewave Energy integration with Parkland's Commercial Business Group exceeded 2010 plan by achieving $3.7 million in synergies;
- Parkland's CEO, Mike Chorlton, announced his retirement on December 3, 2010 with Bob Espey, Parkland's current COO, to succeed him May 1, 2011;
- $45 million convertible debenture offering was completed December 21, 2010;
- Island Petroleum was acquired December 30, 2010 for $23.9 million. Island Petroleum is the largest heating oil distributor on Prince Edward Island and adds 70 million litres in annual fuel sales to Parkland's portfolio;
- Suncor issued notice to terminate its current supply contract with Parkland on December 31, 2013. Parkland does not anticipate any issues with economically replacing the supply volumes before 2014; and
- Parkland Income Fund converted to a corporation effective January 1, 2011 pursuant to a plan of arrangement under the Business Corporations Act (Alberta).

Fuel Volumes

Gasoline, diesel and propane volumes increased 35% to 980 million litres in the fourth quarter of 2010 from 728 million litres in the prior year. The increase in volumes was primarily driven by elevated commercial activity in Northern Alberta and British Columbia and the acquisition of Bluewave Energy effective February 1, 2010.

COMMERCIAL FUEL VOLUMES

For the three months ended December 31, 2010 commercial fuel volumes increased 143% or 264 million litres to 449 million litres compared with 185 million litres for the same period in 2009 due to increased Western Canadian resource activity and the Bluewave Energy acquisition.

Propane volumes declined by 2% for the fourth quarter of 2010 to 40 million litres from 41 million litres for the same period in 2009 due to the December 2009 divestment of an underperforming branch.

RETAIL FUEL VOLUMES

For the three months ended December 31, 2010 retail fuel volumes increased 4% or 15 million litres to 375 million litres compared with 360 million litres for the same period in 2009 due primarily to new higher volume retail sites and the elimination of low volume sites as compared with the fourth quarter of 2009.

Revenue

Net sales and operating revenue for the three month period ended December 31, 2010 was $830.8 million, up 53% from $542.4 million during the fourth quarter of last year. Fuel marketing revenue increased 51% with commercial fuel sales reporting an increase of 151% compared with the same three month period in 2009. The increase in fuel marketing and commercial revenues was primarily due to the Bluewave acquisition. In the fourth quarter of 2010 fuel marketing revenue per litre increased 12%.

Gross Profit

Gross profit for the three months ended December 31, 2010 increased 80% or $45.0 million to $101.5 million compared with $56.5 million for the same period in 2009. This increase was due to a 35% increase in fuel volumes and a 36% increase in fuel gross profit per litre compared with the same period in 2009.

Segmented Sales, Cost of Sales and Gross Profit

The following table details net sales, cost of sales and gross profit for Parkland's business segments:

	Three months ended				
(in millions of Canadian dollars)		December 31, 2010		December 31, 2009	% Change
Fuel Marketing Segment					
Net sales		764.7		505.1	51
Cost of sales		692.7		465.8	49
Gross profit		72.0		39.3	83
Gross margin	%	9.4	%	7.8	
Non-Fuel Commercial Segment					
Net sales		51.3		22.1	132
Cost of sales		32.7		13.7	139
Gross profit		18.6		8.4	121
Gross margin	%	36.3	%	38.0	
Other Segment					
Net sales		9.6		6.6	45
Cost of sales		–		–	–
Gross profit		9.6		6.6	45
Gross margin	%	100.0	%	100.0	
Convenience Store Merchandise Segment					
Net sales		5.2		8.6	(40)
Cost of sales		4.0		6.4	(38)
Gross profit		1.2		2.2	(45)
Gross margin	%	23.1	%	25.6	
Gross Profit Sources					
Total consolidated gross profit		101.5		56.5	80
Less:					
Convenience store gross profit		1.3		2.2	(41)
Gross profit on non-fuel commercial sales		18.6		8.3	124
Other revenue included in gross profit		9.6		6.6	45
Fuel marketing gross profit		72.0		39.4	83
Cents per litre	¢	7.34	¢	5.41	36

Fuel Marketing Segment

Parkland's fuel marketing segment, which accounted for approximately 92% (93% – 2009) of net sales and operating revenue and approximately 71% (70% – 2009) of gross profit for the three months ended December 31, 2010, is the Corporation's most important segment and the focus of its operations. This segment consists of fuel sales and deliveries through the Corporation's commercial, retail, and wholesale operations.

Fuel marketing sales have increased 51% to $764.7 million in the quarter ended December 31, 2010 from $505.1 million in the fourth quarter of 2009. The increase in fuel marketing sales was primarily driven by the January 2010 acquisition of Bluewave Energy, which contributed $176.1 million in fuel sales in the fourth quarter.

Parkland's operating revenues and cost of sales fluctuate with the price paid for refined product, which in turn fluctuates with the cost of crude oil. Profit margins on a cents per litre (cpl) basis are a more relevant indicator of the Corporation's ability to generate value.

For the three month period ended December 31, 2010, profit margins in the retail fuel segment were comparable to the fourth quarter of 2009 at $24.2 million. On a cents per litre basis the retail fuel segment had a profit margin of 6.5 cpl compared with 6.7 cpl in the same period in 2009 due to increased competition in certain markets. Profit margins in the commercial fuel segment increased 146% to $40.8 million in the fourth quarter of 2010 compared with $16.6 million in the fourth quarter of last year. On a cents per litre basis the commercial fuels segment profit margin increased to 9.1 cpl in the fourth quarter of 2010 compared with 9.0 cpl for the same period in 2009 due to an increase in the proportion of higher margin delivered fuel and heating oil products.

Parkland Supply & Wholesale and Refiners' Margins

Parkland Supply & Wholesale, a part of the Fuel Marketing Segment, includes profits from Parkland's participation in refiners' profit margins and modest profits from wholesale fuel sales. Parkland participates in refiners' margins for a significant portion of its supply volumes. Refiners' margins are driven by supply and demand, over which the Corporation has little control. Parkland continues to execute its strategy to build fuel marketing profits to offset fluctuations in refinery margins that are expected to continue until the termination of the Suncor contract on December 31, 2013.

Gross profit in Parkland Supply & Wholesale increased $8.6 million to $6.0 million for the three months ended December 31, compared with ($2.6 million) for the same period in 2009 as refiners' margins recovered from the lower levels experienced earlier in the year.

Product supplies appear to be adequate to meet forecasted commitments.

Non-Fuel Commercial Segment

Parkland's Non-Fuel Commercial Segment consists of agricultural inputs, lubricant, and other products that do not fall into the fuel category. This segment accounted for approximately 6% (4% – 2009) of revenues and 18% (15% – 2009) of gross profits for the three months ended December 31, 2010.

Non-Fuel Commercial revenue increased to $51.3 million in the fourth quarter of 2010 from $22.1 million in the fourth quarter of 2009 due to the addition of revenue in the quarter from the acquisition of Bluewave which was effective February 1, 2010.

Other Segment

Parkland's Other Segment consists of lottery revenue, externally charged freight revenue, retail variable rents, and vendor rebates. While this segment accounted for approximately 1% (1% – 2009) of net sales and operating revenue, it was responsible for approximately 9% (12% – 2009) of Parkland's gross profits for the three months ended December 31, 2010.

Other revenue included in gross profit increased to $9.6 million in the fourth quarter of 2010 from $6.6 million in the fourth quarter of 2009 due in large part to the conversion of corporate operated sites to commission or dealer operated sites.

Convenience Store Merchandise Segment

The Convenience Store segment consists of stores that are directly owned and operated by Parkland, the vast majority of which are associated with retail gas service stations in Parkland's network. Net sales in the convenience store merchandise segment accounted for approximately 1% (2% – 2009) of total revenue and approximately 1% (4% – 2009) of the Corporation's gross profit for the three months ended December 31, 2010.

As more stations are converted to a commissioned operator model, revenues and profits in this segment will decrease while retail commissions will increase 'Other Segment' revenues (above).

Convenience store merchandise sales decreased 40% to $5.2 million for the quarter ended December 31, 2010 compared with $8.6 million in the prior year due to the conversion of corporate operated sites to commission operated sites.

Consolidated Gross Profit

Consolidated gross profit increased 80% to $101.5 million in the fourth quarter of 2010 from $56.5 million in the fourth quarter of 2009, primarily due to the acquisition of Bluewave. Fourth quarter fuel gross profit increased 83% to $72.0 million this year from $39.4 million last year.

Operating and Direct Expenses

Operating and direct costs increased by 61% to $46.6 million (4.8 cpl) for the three months ended December 31, 2010, compared with $28.9 million (4.0 cpl) for the same quarter in 2009. The $17.7 million increase in operating and direct costs for the three month period resulted principally from $11.3 million in additional operating costs directly related to the acquired business of Bluewave. The increase in operating costs on a cpl basis also reflects the change in business mix following the Bluewave acquisition that increased Parkland's proportion of delivered fuel products which involves higher operating costs (due to delivery) offset by higher fuel gross margins.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses increased by 40% to $19.4 million (2.0 cpl) for the three months ended December 31, 2010, compared with $13.9 million (1.9 cpl) for the same quarter in 2009. Of the $5.5 million increase in marketing, general and administrative expenses during the three month period, $3.9 million was related to the addition of Bluewave overhead costs and the remainder was due to increased IT costs related to ERP system implementation and sustainment, consultant costs for the IFRS conversion and accounting and director fee increases to support ERP system related efforts.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

EBITDA for the fourth quarter of 2010 was $35.5 million, an increase of 159% from $13.7 million in 2009. The increase in EBITDA from the same period in 2009 is explained primarily by increases in commercial fuel volumes, stronger refiners' margins and EBITDA increases from the Bluewave acquisition, partially offset by a $5.5 million increase in marketing, general and administrative costs.

Interest on Long-Term Debt

Interest on long-term debt was $5.0 million in the fourth quarter compared with $1.4 million for the same period in 2009. This increase is as a result of increased borrowings to complete the Bluewave acquisition. Most of the Corporation's long-term debt bears interest at variable rates linked to prime.

Interest and Accretion on Convertible Debentures

Interest and accretion on convertible debentures during the fourth quarter was $3.1 million compared with $0.6 million in the fourth quarter of 2009. The increase year over year in interest and accretion expense was the result of the $97.8 million series 1 convertible unsecured subordinated debentures having an issue date of December 1, 2009 and the issue of the $45.0 million series 2 convertible unsecured subordinated debentures on December 21, 1010. The

$97.8 million principal amount of series 1 convertible unsecured subordinated debentures bear interest at an annual rate of 6.5% payable semi-annually in arrears on November 30 and May 31 in each year commencing May 31, 2010. The $45.0 million principal amount of series 2 convertible unsecured subordinated debentures bear interest at an annual rate of 5.75% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2011.

Income Tax

An income tax expense of $0.5 million was incurred in the fourth quarter compared with a recovery of $2.3 million for the same period in 2009. This was mainly due to taxable income in the period exceeding distributions.

Earnings

Net earnings in the fourth quarter of 2010 was $10.8 million, up 140% from $4.5 million for the same period in 2009. The increase in net earnings was the result of higher EBITDA, partially offset by higher amortization and interest costs.

Cash Balances and Cash Flow Activity

Parkland's cash position at December 31, 2010 decreased by $39.4 million during the fourth quarter compared with an increase of $12.8 million for the same period in 2009. For the three month period ended December 31, 2010, operating activities used $45.8 million of cash versus a generation of $4.0 million in cash flow in the fourth quarter of 2009. During the fourth quarter of 2010 accounts receivable increased $37.9 million from the end of the third quarter due to seasonal volume increases in commercial accounts. Accounts payable and accrued liabilities decreased $34.0 million due to quicker payments to trade suppliers. Financing activities in the fourth quarter of 2010 generated $20.9 million in net cash flow, which included $40.3 million in proceeds from the issue of series 2 convertible unsecured subordinated debentures partially reduced by $16.5 million in distributions to unitholders. Financing activities in the fourth quarter of 2009 generated $26.6 million in cash flow, which included $87.8 million in proceeds from the issue of series 1 convertible unsecured subordinated debentures partially reduced by $15.1 million in distributions to unitholders. Investing activities in the fourth quarter of 2010 used $14.5 million in cash flow compared with $17.8 million in cash flow used in the fourth quarter of 2009.

Property Plant and Equipment, Intangible Assets and Amortization

Amortization expenses in the fourth quarter of 2010 were $16.7 million, up from $9.8 million a year earlier. During the fourth quarter of 2010, the Corporation's total additions of property, plant and equipment and intangibles, consisting of maintenance capital and growth capital, were $13.6 million compared with $16.6 million for the same period in 2009. Maintenance capital for the quarter was $3.1 million compared with maintenance capital of $2.1 million in the fourth quarter of 2009. Growth capital for the quarter was $10.5 million, including intangible asset expenditures of $0.3 million, compared with $14.5 million in growth capital for the same period last year.

For accounting purposes, amounts expended on both maintenance and growth capital are treated as purchases of capital assets. The classification of capital as growth or maintenance is subject to judgment, as many of the Corporation's capital projects have components of both. It is the Corporation's policy to classify all capital assets related to service station upgrades or the replacement and betterment of its trucking fleet as maintenance capital. The construction of a new building on an existing site or the additions of new trucks and trailers to increase the size of the fleet is considered growth capital.

TWELVE MONTHS ENDED DECEMBER 31, 2010

The highlights for the twelve month period ended December 31, 2010 are as follows:

- Fuel sales volumes increased 28% to 3.5 billion litres compared with 2.7 billion litres in 2009;
- EBITDA increased 14% to $103.4 million compared with $90.8 million in 2009;
- Net earnings decreased 38% to $30.2 million compared with $48.6 million in 2009;
- Bluewave Energy was acquired January 31, 2010 for $232.0 million giving Parkland a coast-to-coast presence; and
- ERP system was implemented with the view of building a sustainable platform for future growth and operational efficiency.

Fuel Volumes

Fuel volumes for the year increased 28% with total fuel volume of 3.5 billion litres in 2010 compared with 2.7 billion litres in 2009. Wholesale fuel volumes decreased 17% to 682 million litres from 817 million litres last year as sales were minimized due to unduly low refiners' margins. 2010 Retail fuel volumes increased 2% or 28 million litres.

COMMERCIAL FUEL VOLUMES

For the year ended December 31, 2010 commercial fuel volumes increased 128% or 818 million litres to 1,458 million litres compared with 640 million litres in 2009 primarily due the acquisition of Bluewave Energy in January 2010.

Propane volumes declined by 11% for the year to 120 million litres from 135 million litres in 2009 due to both the December 2009 sale of a low performing branch and warmer winter weather from November 2009 to March 2010. Heating oil volumes increased 163 million litres due to the acquisitions of Bluewave and Columbia Fuels.

RETAIL FUEL VOLUMES

For the year ended December 31, 2010 retail fuel volumes increased 2% or 28 million litres to 1,470 million litres compared with 1,442 million litres in 2009 due primarily to new retail site volumes offsetting the elimination of low volume sites as compared with 2009.

Revenues

Net sales and operating revenue for the year ended December 31, 2010 was $2,913.4 million, up 44% from $2,020.0 million during last year. Fuel marketing revenue for the twelve months ended December 31, 2010 increased 45% with commercial fuel sales reporting an increase of 128% compared with 2009. The increase in fuel marketing and commercial revenues was primarily due to the Columbia Fuels and Bluewave acquisitions. Bluewave contributed an increase of $536.2 million in fuel marketing and commercial revenues.

Gross Profit

Gross profit for the year ended December 31, 2010 increased 36% or $89.3 million to $338.4 million compared with $249.1 million for the same period in 2009. This increase was due to a 28% increase in fuel volumes and a 4% increase in fuel gross profit per litre compared with 2009.

Segmented Sales, Cost of Sales and Gross Profit

The following table details net sales, cost of sales and gross profit for Parkland's business segments:

	Year ended		
(in millions of Canadian dollars)	December 31, 2010	December 31, 2009	% Change
Fuel Marketing Segment			
Net sales	2,693.3	1,852.8	45
Cost of sales	2,451.1	1,670.4	47
Gross profit	242.2	182.4	33
Gross margin	% 8.99	% 9.84	
Non-Fuel Commercial Segment			
Net sales	156.1	93.2	67
Cost of sales	105.8	64.5	64
Gross profit	50.3	28.7	75
Gross margin	% 32.22	% 30.79	
Other Segment			
Net sales	39.7	25.4	56
Cost of sales	–	–	–
Gross profit	39.7	25.4	56
Gross margin	% 100.0	% 100.0	
Convenience Store Merchandise Segment			
Net sales	24.3	48.7	(50)
Cost of sales	18.1	36.0	(50)
Gross profit	6.2	12.7	(51)
Gross margin	% 25.51	% 26.08	
Gross Profit Sources			
Total consolidated gross profit	338.4	249.2	36
Less:			
Convenience store gross profit	6.2	12.7	(51)
Gross profit on non-fuel commercial sales	50.3	28.7	75
Other revenue included in gross profit	39.7	25.4	56
Fuel marketing gross profit	242.2	182.4	33
Cents per litre	¢ 6.92	¢ 6.66	4

Fuel Marketing Segment

Parkland's fuel marketing segment accounted for approximately 92% (92% – 2009) of net sales and operating revenue and approximately 72% (73% – 2009) of gross profit for the year ended December 31, 2010.

Fuel marketing sales have increased 45% to $2,693.3 million in the twelve months ended December 31, 2010 from $1,852.8 million in 2009. The increase in fuel marketing sales was primarily driven by increases in commercial activity in Northern Alberta and British Columbia and the January 2010 acquisition of Bluewave, which contributed $482.1 million in fuel sales in the year.

For the year ended December 31, 2010, profit margins in the retail fuel segment decreased $2.7 million to $98.5 million in 2010 from $101.2 million in the prior year. On a cents per litre basis the retail fuel segment had a profit margin of 6.7 cpl compared with 7.0 cpl in 2009 due to increased competition in certain markets. Fuel profit margins in the commercial fuel segment increased 148% to $122.4 million in 2010 compared with $49.3 million in 2009. On a cents per litre basis the commercial fuels segment profit margin increased to 8.4 cpl in 2010 compared with 7.7 cpl in 2009 due to an increase in the proportion of higher margin delivered fuel and heating oil products.

Parkland Supply & Wholesale and Refiners' Margins

Parkland Supply & Wholesale, a part of the Fuel Marketing Segment, includes profits from Parkland's participation in refiners' profit margins and modest profits from wholesale fuel sales. Parkland participates in refiners' margins for a significant portion of its supply volumes. Refiners' margins are driven by supply and demand, over which the Corporation has little control. Parkland continues to execute its strategy to build fuel marketing profits to offset fluctuations in refinery margins that are expected to continue until the termination of the Suncor contract on December 31, 2013.

For the year ended December 31, 2010, Parkland Supply & Wholesale gross profit decreased 22% to $18.8 million compared with $23.9 million in 2009. A historical analysis of Parkland's participation in refiners' margins for gasoline and diesel back to 2005 demonstrates that combined margins for the nine month period ending September 30, 2010 were at the lowest they had been since 2005. Refiners' margins in the fourth quarter of 2010 improved from the lower levels experienced earlier in the year.

Non-Fuel Commercial Segment

Parkland's Non-Fuel Commercial Segment accounted for approximately 5% (5% – 2009) of revenues and 15% (12% – 2009) of gross profits for the year ended December 31, 2010.

Non-Fuel Commercial revenue increased to $156.1 million in 2010 from $93.2 million in 2009 due to the addition of revenue in the year from the acquisition of Bluewave which was effective February 1, 2010.

Other Segment

The Other Segment accounted for approximately 1% (1% – 2009) of revenues and 12% (10% – 2009) of gross profits for the year ended December 31, 2010.

Other revenue included in gross profit increased to $39.7 million in 2010 from $25.4 million in 2009 due in large part to the conversion of corporate operated sites to commission or dealer operated sites. The other revenue category includes lottery, externally charged freight revenue, retail variable rents and vendor rebates.

Convenience Store Merchandise Segment

The Convenience Store Merchandise Segment accounted for approximately 1% (2% – 2009) of revenues and 2% (5% – 2009) of gross profits for the year ended December 31, 2010.

Convenience store merchandise sales decreased 50% to $24.3 million for the year ended December 31, 2010 compared with $48.7 million in the prior year due to the conversion of corporate operated sites to commission or dealer operated sites.

Consolidated Gross Profit

Consolidated gross profit increased 36% to $338.4 million in 2010 from $249.1 million in 2009, primarily due to the acquisition of Bluewave and Columbia Fuels. Fuel gross profit increased 33% to $242.2 million this year from $182.4 million last year.

Operating and Direct Expenses

Operating and direct costs in 2010 increased by 49% to $159.4 million (4.6 cpl) compared with $106.9 million (3.9 cpl) in 2009. The $52.5 million year over year increase in operating and direct costs resulted primarily from $43.0 million in additional operating costs directly related to the acquired businesses of Columbia Fuels and Bluewave that increased Parkland's proportion of delivered fuel products which involves higher operating costs (due to delivery) offset by higher fuel gross margins.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses in 2010 increased by 47% to $75.6 million (2.2 cpl) compared with $51.4 million (1.9 cpl) in 2009. Of the $24.2 million year over year increase, $12.3 million was related to the acquired businesses of Bluewave and Columbia Fuels, $1.0 million was related to onetime costs for converting from a trust to a corporation and $4.1 million was due to information technology expenses related to ERP system implementation and sustainment. The remaining increase was due to consultant costs for the IFRS conversion as well as additional accounting and director fees.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)

EBITDA in 2010 was $103.4 million, an increase of 14% from $90.8 million in 2009. The increase in EBITDA from 2009 is explained primarily by EBITDA increases from the Columbia and Bluewave acquisitions which were partially offset by $24.2 million increase in marketing, general and administrative expenses.

Interest on Long-Term Debt

Interest on long-term debt was $18.8 million in 2010, up significantly from $5.1 million in the prior year as the result of additional borrowings to fund the January 31, 2010 acquisition of Bluewave. With the exception of Parkland's convertible debentures, most of the Corporation's long-term debt bears interest at variable rates linked to prime.

Interest and Accretion on Convertible Debentures

Interest and accretion on convertible debentures during 2010 was $8.5 million versus $0.6 million in 2009. The increase year over year in interest and accretion expense was the result of a full year's recognition of the $97.8 million series 1 convertible unsecured subordinated debentures issued December 1, 2009 and ten days recognition of the issue of the $45.0 million series 2 convertible unsecured subordinated debentures on December 21, 1010. The $97.8 million principal amount of series 1 convertible unsecured subordinated debentures bear interest at an annual rate of 6.5% payable semi-annually in arrears on November 30 and May 31 in each year commencing May 31, 2010. The $45.0 million principal amount of series 2 convertible unsecured subordinated debentures bear interest at an annual rate of 5.75% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2011.

Income Tax Expense

An income tax recovery of $13.9 million in 2010 was incurred compared with a recovery of $1.1 million in 2009 as a result of distributions exceeding year-to-date taxable income.

Earnings

Earnings before income taxes for the year ended December 31, 2010 was $16.3 million, down 66% from $47.5 million a year earlier. Net earnings in 2010 was $30.2 million, down 38% from $48.6 million in 2009. The decrease in net earnings was the result of higher EBITDA offset by higher amortization and interest costs.

Cash Balances and Cash Flow Activity

Parkland's cash position at December 31, 2010 increased by $0.9 million during the year compared with a decrease of $1.9 million in 2009. For the year ended December 31, 2010, operating activities generated $4.5 million of cash versus $112.4 million in cash flow generated in 2009. During 2010 accounts receivable increased $80.8 million for the reasons previously discussed on page 48. Financing activities in 2010 generated $240.9 million in cash flow. Proceeds from long-term debt during 2010 were $353.4 million, partially reduced by long-term debt repayments of $94.6 million, were primarily used to fund the $232.0 million acquisition of Bluewave during the same period. Distributions to shareholders were $65.4 million, an increase of $3.1 million from 2009. Investing activities in 2010, including the acquisition of Bluewave, used $244.4 million in cash flow compared with $87.2 million in cash flow used in 2009.

Property Plant and Equipment, Intangible Assets and Amortization

Amortization expense for the year ended December 31, 2010 was $62.5 million, up 65% from $37.9 million a year earlier. A full year of amortization for capital assets and intangible assets acquired in 2009 plus amortization of capital assets acquired in 2010 accounted for the increase.

During the year ended December 31, 2010 the Corporation's total additions of property, plant and equipment and intangibles, consisting of maintenance capital and growth capital, was $40.9 million compared with $43.6 million in 2009. Capital investments classified as maintenance capital were $11.7 million in the current year compared with $11.6 million in 2009. Capital investments classified as growth capital, including intangible asset expenditures related to Parkland's new ERP system, were $29.2 million in 2010 compared with $32.0 million in 2009. Total additions of intangibles in 2010 were $6.0 million, primarily related to the implementation and development of the new ERP system.

SUMMARY OF THE EIGHT MOST RECENTLY COMPLETED CONSOLIDATED QUARTERLY RESULTS

								Three months ended
(in millions of Canadian dollars, except volume and per share/unit amounts)	Dec-31	Sep-30	Jun -30	2010 Mar-31	Dec-31	Sep-30	Jun-30	2009 Mar-31
Fuel volume (millions of litres)	980	901	802	816	728	712	628	673
Net sales and operating revenue	830.8	796.5	605.8	680.3	542.4	543.1	479.5	455.1
Net earnings	10.8	0.4	13.5	5.4	4.5	10.1	14.3	19.8
EBITDA	35.5	18.1	27.9	21.9	13.7	21.4	23.4	32.3
Net earnings per share/unit								
Basic	$ 0.21	$ 0.01	$ 0.25	$ 0.11	$ 0.09	$ 0.20	$ 0.28	$ 0.40
Diluted	$ 0.21	$ 0.01	$ 0.25	$ 0.11	$ 0.09	$ 0.20	$ 0.28	$ 0.40

Parkland continues to generate increased fuel volume each quarter compared with the corresponding quarters in the prior year, generally as a result of acquisitions in prior quarters.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Parkland has available an Extendible Facility, including an operating loan, capital loan and letters of credit, up to a **maximum** amount of $400 million (increased from $265 million to $400 million on January 31, 2010) and bears interest, payable monthly, at the bank's prime lending rate plus 2.5 to 3.75% per annum. The Extendible Facility is subject to renewal on June 6, 2011 at which time it can be extended at Parkland or the lenders' option for 364 days. If the Extendible Facility is not extended past June 6, 2011, all amounts outstanding are repayable in eight consecutive quarterly instalments, commencing on the last day of the quarter following the maturity date, with the first seven of such instalments being one-eighth of the outstanding balance and remainder at the end of the period. Security for the Extendible Facility is assignment of insurance and an unlimited guarantee from the secured entities.

At December 31, 2010, Parkland had $240.6 million in long-term debt (excluding $80.4 million of the current portion of long-term debt, the $88.6 million remaining amount of series 1 convertible unsecured subordinated debentures outstanding and the $40.3 million remaining amount of series 2 convertible unsecured subordinated debentures outstanding), compared with $41.0 million at December 31, 2009 (excluding $13.9 million of the current portion and the $87.8 million remaining amount of series 1 convertible unsecured subordinated debentures outstanding). At December 31, 2010, the debt component portion of the series 1 convertible unsecured subordinated debentures including accreted issue costs, was $88.6 million and the equity portion was $5.7 million. At December 31, 2010, the debt component portion of the series 2 convertible unsecured subordinated debentures including accreted issue costs, was $40.3 million and the equity portion was $2.7 million.

Based on the balance of Parkland's seasonal business, management believes that cash flow from operations will be adequate to fund maintenance capital, interest, taxes and targeted dividends. Growth capital expenditures in 2011 will be funded by cash flow from operations, proceeds from the Premium Dividend™ and Dividend Reinvestment Plan, and by the Extendible Facility. Any additional debt incurred will be serviced by anticipated increases in cash flow and will only be borrowed within Parkland's debt covenant limits.

Parkland manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, Parkland may adjust capital spending, adjust dividends paid to shareholders, issue new shares, issue new debt or repay existing debt. Parkland's remaining available growth capital under Canadian Taxation rules for Income Trusts at December 31, 2010 was approximately $3.1 million (December 31, 2009 – $78 million) and Parkland was therefore not subject to trust taxation prior to the Conversion.

At December 31, 2010, Parkland was in compliance with all debt covenants. At December 31, 2010, Parkland had $18.5 million of cash on hand at various banks compared with a cash balance of $17.6 million on hand at December 31, 2009. As part of the June 7, 2010 credit renewal, a "net debt" concept was introduced where cash on hand is treated as a reduction to debt to determine covenant compliance. Debt covenant ratios are tested on a trailing four quarter basis EBITDA 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 1.10 to 1.00 on a consolidated basis;
2. Ratio of funded debt (which excludes the convertible debentures but includes issued letters of credit) to EBITDA shall not exceed 3.25 to 1.00; and
3. Ratio of EBITDA less maintenance capital expenditures and taxes to the sum of interest, principal and distributions shall not be less than 1.00 to 1.00.

Liquidity risk is the risk that Parkland will encounter difficulties in meeting its financial liability obligations. Parkland manages its liquidity risk through cash and debt management. In managing liquidity risk, Parkland has access to various credit products at competitive rates. Parkland believes it has sufficient funding through the use of these facilities to meet foreseeable borrowing requirements.

ENTERPRISE RESOURCE PLANNING (ERP) IMPLEMENTATION

During 2010 Parkland implemented an ERP system intended to enhance Parkland's long-term efficiency, the ability to integrate future acquisitions, and build a sustainable platform for future growth and operational improvements. Despite the initial challenges experienced with the ERP system during the first three quarters of 2010, Parkland exited the fourth quarter with the majority of the earlier implementation issues either solved or well underway towards resolution.

The ERP system implementation began on March 1, 2010 when the majority of Parkland's operating divisions, excluding Columbia Fuels and Bluewave, migrated their supply-chain and accounting transaction streams onto the ERP platform. This unified the essential operational data of these business units with Parkland's core business functions. The initial implementation experienced complications with processing certain sales transactions which resulted in invoicing delays, delayed customer collections and increased working capital requirements. In response to these initial implementation complications, and to compensate for any deficiencies identified, Parkland implemented a number of analytical procedures that were designed and operated throughout the year and at quarter-ends including additional account reconciliations, specific transaction price and volume testing procedures, senior management review of adjustments and operational results, including comparisons to budget and prior period(s) results and other analytical procedures. A dedicated team was put in place to monitor the resolution of outstanding issues with the ERP system under the guidance of a sub-committee of the Board of Directors.

Through the fourth quarter of 2010, Parkland continued the refinement and improvement of the primary ERP transaction streams and customer-facing processes. Parkland also continued reconciling and settling customer accounts that were disrupted by the implementation.

Through the first quarter of 2011, Parkland is analyzing and preparing for the controlled migration of Columbia Fuels and Bluewave onto the ERP system in 2011, and the implementation of additional modules to expand the functionality of the system. Based on the experience gained during the initial implementation Parkland has refined its approach to beta testing and implementation. Parkland will continue to utilize a staged approach that will require new information technologies to first be deployed in a test (beta) environment, running in parallel with existing systems where possible. New systems will not be implemented until they have stabilized in the test environment, and have demonstrated a robust capacity to manage their data streams.

While Parkland will continue to utilize qualified and experienced external consultants to assist in future technology implementations, its growing internal base of expertise in implementing new systems will reduce the Corporation's use of external resources over time.

Parkland expects the implementation of the ERP at Bluewave Energy and Columbia Fuels to proceed without the same level of issues that were experienced with the initial ERP system implementation in March 2010.

Once fully implemented, the ERP system will provide Parkland with a comprehensive back office system that will help support and optimize the management of Parkland's fuel supply chain and be the foundation platform for future acquisitions.

DISTRIBUTIONS

The following table sets forth the record date, date of payment, per share/unit amount of distributions paid and total cash distributed for 2010:

Record Date	Payment Date	Per Share/ Trust Unit	Total Distributions ($000's)
January 29, 2010	February 15, 2010	0.105	5,283
February 26, 2010	March 15, 2010	0.105	5,416
March 31, 2010	April 15, 2010	0.105	5,420
April 30, 2010	May 14, 2010	0.105	5,468
May 31, 2010	June 15, 2010	0.105	5,471
June 30, 2010	July 15, 2010	0.105	5,472
July 31, 2010	August 15, 2010	0.105	5,458
August 31, 2010	September 15, 2010	0.105	5,461
September 30, 2010	October 15, 2010	0.105	5,462
October 31, 2010	November 15, 2010	0.105	5,469
November 30, 2010	December 15, 2010	0.105	5,473
December 31, 2010	January 15, 2011	0.105	5,584
Total distributions declared to share/unitholders in 2010		$1.26	65,437

2011 DIVIDEND PLAN

Commencing January 2011, Parkland intends to pay dividends on a monthly basis of $0.085 per share, equivalent to $1.02 per share annually. This is within the dividend range announced earlier in 2010. Parkland's business has grown significantly over the past five years and a similar growth trajectory is anticipated as the fuel industry continues to consolidate. This dividend level has been set to allow Parkland to continue to execute growth plans through a combination of internally generated funds, external debt and equity capital. At the discretion of Parkland's Board of Directors, Parkland will determine the amount of any future dividends payable. From time to time this amount may vary depending on a number of factors.

DIVIDEND REINVESTMENT PLAN

Termination of Fund's Distribution Reinvestment Plan

In connection with the completion of the Conversion, on December 31, 2010 Parkland terminated its existing distribution reinvestment plan (the "Fund DRIP") and introduced a New Dividend Reinvestment Plan. Investors enrolled in the Fund DRIP are not automatically enrolled in the New Dividend Reinvestment Plan, and will have to enrol in the new plan if they wish to participate. Participants seeking further information with respect to their entitlements under the Fund DRIP may contact the trustee under the Fund DRIP, Valiant Trust Company.

New Premium Dividend™ and enhanced Dividend Reinvestment Plan

In addition to the option of receiving a monthly cash dividend of $0.085 per share, the Premium Dividend™ and enhanced Dividend Reinvestment Plan provide Canadian shareholders with the following options:

- The Premium Dividend™ – this provides eligible shareholders with a 2% cash premium on top of their regular cash dividend. Participants in this option will receive a monthly payment of $0.0867 per share.
- Dividend Reinvestment – this allows shareholders to repurchase shares with their dividend at a 5% discount to the volume weighted average price as defined by the plan.

Those shareholders who do not elect to participate in the Premium Dividend™ and enhanced Dividend Reinvestment Plan will still receive their regular monthly dividend of $0.085 per share.

Parkland's DRIP is administered by Valiant Trust. Details are available from Parkland or from Valiant Trust.

CRITICAL ACCOUNTING ESTIMATES

Estimates are used when accounting for items such as impairment and valuation allowances for accounts receivable and inventory, calculation of fair value for the convertible debentures, intangibles and goodwill, amortization of property plant and equipment, 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.

ACCOUNTS RECEIVABLE

Parkland's accounts receivable have been reduced for amounts that have been deemed uncollectible. At December 31, 2010 the provision for credit losses was $8.3 million ($3.6 million – 2009). This amount is based on management's judgment and assessment of the financial condition of Parkland's customers and the industries in which they operate. The provision for credit losses is subject to change as general economic, industry and customer specific conditions change.

INVENTORY

Parkland's inventory is comprised mainly of products purchased for resale including fuel, lubricants, agricultural and convenience store products. The products are valued at the lesser of cost using first-in first-out ("FIFO") and market values. The determination of the market value includes certain estimates and judgements which could affect the ending inventory valuations.

AMORTIZATION AND ACCRETION

The amortization of capital assets and intangibles incorporates the use of estimates for useful lives and residual values. These estimates are subject to change as market conditions change or as operating conditions change. Accretion expense is recognized on the estimated future asset retirement obligations for leased sites and for the future estimated cost of the Bowden refinery remediation. These future obligations are estimated and are subject to change over time as more experience is obtained or as conditions change.

ASSET RETIREMENT OBLIGATIONS

The estimated future costs to remove underground fuel storage tanks at locations where Parkland 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 future retirement costs are estimated in consultation with Parkland's environmental technicians and based on industry standards and would be subject to change as more experience is obtained and as conditions change. The costs are expected to be incurred between 2011 and 2027 and the total undiscounted obligation at the end of 2010 was estimated at $8.0 million with a net present value of the obligations accrued at the end of 2010 of $6.4 million.

GOODWILL

Parkland performs an annual test for goodwill impairment and whenever circumstances change that may indicate that impairment may have occurred. The impairment test requires a valuation of the respective segment's estimated future cash flows and relies on the segment's operating results as well as future projections related to business plans and market conditions. Parkland's test at December 31, 2010 determined that goodwill was not impaired.

INCOME TAXES

Future income taxes are based on temporary differences between the book value and the tax value of assets and liabilities using future income tax rates existing under current law. Changes in the assumptions used to derive the future income tax rate could have a material impact on the future income tax expense or recovery incurred in the period.

CONVERTIBLE DEBENTURES

Parkland's convertible debentures are classified on the balance sheet as debt with a portion of the proceeds allocated to equity representing an estimate of the value of the conversion feature. As the debentures are converted to Common Shares of Parkland, a portion of the debt and equity will be transferred to Shareholders' Capital. The residual method was used to value the debt and equity and the interest rate used to value the debt component was 8% for the Series 1 convertible unsecured subordinated debentures and 7.25% for the Series 2 convertible unsecured subordinated debentures.

Bowden Refinery

At December 31, 2004, Parkland recorded the net estimated liability that would be realized if its 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 produce fluids used in the oilfield and utilized tankage for fuel storage. Parkland 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. Parkland is currently installing a rail spur to support intended use of the facility as a storage terminal or processing site. 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 may be delayed until operations cease. 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 $13.8 million net of salvage value of equipment. The liability reported by Parkland for the refinery remediation is $6.8 million ($6.5 million – 2009) in the December 31, 2010 balance sheet.

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

Parkland regularly reviews the book values of its property, plant and equipment, goodwill and intangible assets and tests for impairment of value. Parkland determined that there was no impairment to be recognized.

FINANCIAL INSTRUMENTS

Credit and Market Risk

A substantial portion of Parkland's accounts receivable balance is with customers in the oil and gas, mining and forestry industries and is subject to normal industry credit risks. As a result of billing complications from the 2010 ERP system implementation, Parkland's credit department has been expanded to work with individual customers to reconcile accounts, resolve any discrepancies and manage collections back to normal terms.

Parkland manages its exposure to credit risk through rigorous credit granting procedures and sets customer specific credit limits. Typically short payment terms and security interests are used where applicable. Parkland attempts to closely monitor financial conditions of its customers and the industries in which they operate. Parkland performs ongoing credit evaluations of its customers and outstanding debts are regularly monitored.

As at December 31, 2010, Parkland's accounts receivable balance was $284.5 million, up $169.7 million from the December 31, 2009 balance of $114.8 million. The increase during 2010 includes the $83.0 million of accounts receivable included in the acquisition value of Bluewave Energy acquired on January 31, 2010 and $6.7 million in accounts receivable included in the acquisition value of Island Petroleum acquired on December 30, 2010. The balance of the increase in accounts receivable was due to seasonal volume increases in commercial accounts and increases in other non-trade receivables including government fuel taxes.

Accounts receivable outstanding for more than 90 days past terms have increased by $12.7 million from $7.0 million at December 31, 2009 to $19.7 million at December 31, 2010. The acquisition of Bluewave has contributed $3.5 million in accounts receivable over 90 days past terms. The purchase of Island Petroleum included $1.1 million of accounts receivable over 90 days past terms, of which $0.9 million was also charged to the provision for impairment of credit losses discussed below. For the accounts receivable that were impacted by the Parkland ERP system implementation, balances outstanding over 60 days reduced by $8.4 million from September 30, 2010 to December 31, 2010.

At December 31, 2010, the provision for impairment of credit losses was $8.3 million, up $4.7 million from 2009. This was principally due to the Bluewave and Island Petroleum acquisitions plus an increase in the provision related to the amounts that have aged because of delayed billing caused by the ERP system implementation. Parkland considers the total reserve to be adequate.

Interest Rate Risk

Parkland is exposed to market risk from changes in the Canadian prime interest rate which can impact its borrowing costs. The $97.8 million series 1 convertible unsecured subordinated debentures bear interest at a 5 year annual fixed rate of 6.5% payable semi-annually in arrears on November 30 and May 31 in each year commencing May 31, 2010. The $45.0 million principal amount of series 2 convertible unsecured subordinated debentures bear interest at a 5 year annual fixed rate of 5.75% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2011. The fixed rates of the series 1 and series 2 convertible unsecured subordinated debentures reduce Parkland's exposure to variable rates.

Foreign Exchange Risk

Parkland purchases certain products in US dollars and sells such products to its customers typically in Canadian dollars. As a result, fluctuations in the value of the Canadian dollar relative to the US dollar can result in foreign exchange gains and losses. At the end of 2010 Parkland had US dollar accounts payable totalling $US1.1 million and US dollar cash of $US0.3 million and as a result the Corporation would not be exposed to a significant foreign exchange loss.

OFF BALANCE SHEET ARRANGEMENTS

Parkland has not engaged in any off balance sheet arrangements.

NON CAPITAL RESOURCES

Employees

Parkland's ability to deliver on its strategy is contingent on retaining and attracting 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 critical 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. Parkland provides a share 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 share prices are beneficial to all.

Safety

In addition to other risks, Parkland's primary business involves the transportation and sale of fuel products and other dangerous goods such as anhydrous ammonia, 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 procedures to cover risk situations. Safety bonuses are also provided to employees in higher risk roles as a means of motivating safe performance of duties.

Parkland's Health, Safety & Environment (HSE) program includes comprehensive policies and procedures to protect the Corporation's workers, the public and the environment. Additionally, employees have the opportunity to actively engage in safety initiatives through numerous HSE committees. The HSE committees represent all areas of Parkland's business and, as part of the overall program, ensure that identified risks are properly mitigated.

Parkland maintains a Certificate of Recognition (COR) in two provinces, and is a proud participant in Alberta WCB's Partnerships in Injury Reduction program. In the third quarter of 2010 Parkland successfully underwent a comprehensive external audit to re-certify its operations.

Technology

Parkland utilizes a number of information technology systems that assist and support the administration and control of its operations. Technology initiatives are primarily implemented using in-house resources with additional assistance from outside consultants when required.

Parkland's technology initiatives include:

- Upgrading Point of Sale systems and implementing the Europay, MasterCard and Visa ("EMV") payment system 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 processes.

Parkland is currently undergoing extensive business process re-engineering and the upgrade and continued integration of its ERP system software. Parkland has engaged external consultants who have experience in the fuel marketing industry and in the implementation of the ERP system chosen by Parkland. These consultants have assisted with various phases of the project including system/process design, implementation, stabilization and sustainment.

Parkland started the ERP system implementation on March 1, 2010 with the overall objective to consolidate, integrate and streamline supply-chain and accounting transaction data streams across the internal and external applications of Parkland's core operations. Into 2011, Parkland will be completing the ERP implementation including preparation for the controlled integration of Columbia Fuels and Bluewave onto the Parkland ERP system later in 2011.

The implementation of the ERP system in March 2010, caused difficulties in processing transactions, issuing invoices and collecting accounts receivables in a timely manner, and resulted in increased working capital requirements. See "Business Risks – Risks Related to the Business and the Industry – Technology".

To minimize undue risk to Parkland's business related to required or planned technology changes, Parkland plans to utilize a staged approach that will require new information technologies to first be deployed in a test (beta) environment, running in parallel with existing systems where possible. New systems will not be implemented until they have stabilized in the test environment, and have demonstrated a robust capacity to manage their data streams.

While Parkland will continue to utilize qualified and experienced external consultants to assist in future technology implementations, its growing internal base of expertise in implementing new systems will reduce the Corporation's dependence on external resources over time.

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 newer 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. There can be no assurances that such mitigation efforts will be adequate, in whole or in part.

Competition

Parkland competes 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 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 this could grow. In some of Parkland's markets, competitors have been in existence longer and have greater financial, marketing and other resources than Parkland does. Parkland may not be able to compete successfully against current and future competitors, and competitive pressures faced by Parkland could materially and adversely affect Parkland's business, results of operations and financial condition.

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

Parkland's motor fuel and propane revenues are a significant component of total revenues. Crude oil and domestic wholesale petroleum markets display significant volatility. Parkland is susceptible to interruptions in the supply of motor fuel at the Corporation's 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. Higher supply and fuel costs can also result in increased working capital and corresponding financing requirements. In addition, changes in the retail price of petroleum products could dampen consumer demand for motor fuel. These factors could materially influence Parkland's motor fuel volume, motor fuel gross profit and overall customer traffic, which, in turn, could have a material adverse effect on the Corporation's 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 over time. Production at these facilities is subject to production interruptions which can periodically disrupt the availability of refined product in the region.

Parkland's supply contract with Suncor allows Parkland to participate in refiners' margins. These margins are volatile and not assured. Parkland has received notice from Suncor that the supply contract will terminate on December 31, 2013. The Suncor supply contract represents a large annual fuel volume of approximately one billion litres. Suncor volumes currently account for less than a third of Parkland's total fuel supply, and the Corporation is continually negotiating new supply agreements for its supply portfolio. In anticipation of receiving Suncor's notice of termination, Parkland has already started developing alternate supply options and related facilities to economically replace the fuel supply contract with Suncor. Parkland does not anticipate any issues with replacing the Suncor supply volumes for 2014 if negotiations with Suncor are unsuccessful.

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. Parkland attempts to closely monitor financial conditions of its customers. As a result of delayed invoicing caused by Parkland's 2010 ERP implementation, certain customer accounts and balances have aged beyond normal terms which could result in increased bad debts.

Safety and Environmental

The operation of service stations, refinery facilities and petroleum, propane and anhydrous 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. Parkland is insured for all major environmental risk areas. There can be no assurances that such insurance will be adequate to cover all potential losses or that Parkland's mitigation efforts will be effective, in whole or in part.

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 Parkland. 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 attempts to mitigate this risk by maintaining a diverse 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 the Corporation's regional market. However, there can be no assurances that such mitigation efforts will be adequate, in whole or in part. Parkland's supply contract with Suncor will terminate on December 31, 2013. The Suncor supply contract represents a large annual fuel volume of approximately one billion litres. In addition to Suncor, Parkland has contracts in place with 7 refiners with contract durations ranging from 1 to 8 years and approximately 30% of Parkland's fuel volumes correspond to contracts with 3 years or more remaining.

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.

Parkland serves the farm trade. This sector is subject to weather variation and commodity price fluctuation.

The oil and gas exploration sector is subject to changes in commodity prices and access to capital which impacts the drilling budgets of Parkland's customers. This largely affects oilfield fluids, propane and bulk fuel sales directly as well as impacts communities in primary exploration regions in Alberta and Northern British Columbia.

The oil production sector is more stable but is impacted by long-term trends in exploration activity. Parkland provides propane and related product sales to this sector.

Forestry has seen reduced activity over the past several years and future activity is dependent upon trends in construction activity.

Mining is susceptible to variations in commodity prices. Parkland's fuel customers include several mines producing different metals and their demand for fuel may decline.

Part of Parkland's profitability is derived from its share of refiners' margins under the supply contract with Suncor. Refiners' margins may deteriorate in the face of declining demand for petroleum products or surplus refining capacity.

Weather

Parkland's sales volume and profitability are subject to weather influences, especially winter temperatures. Parkland's heating oil and propane sales are greatest in the winter months but can be lower than normal if winter temperatures are warmer. Parkland has propane and heating oil operations in Atlantic Canada, Ontario, Alberta, British Columbia and the Yukon Territory which all experience different weather patterns which can mitigate the impacts of regional winter temperature differences. In the spring and fall seasons, weather can negatively influence agricultural product sales in Parkland's commercial business group.

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 & Hybrid Vehicles

The auto industry continues to develop technologies to improve the efficiency of internal combustion engines and produce economically viable alternate fuels.

Although hybrid vehicles, and to a lesser extent electric vehicles, have entered the market, the non-urban nature of Parkland's market niche is expected to provide some insulation from the impact of these vehicles on fuel sales volumes. Non-urban markets are expected to be late adopters of these technologies due to the realities of driving outside of Canada's large urban centres.

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. Parkland has already adopted biodiesel and ethanol blended gasoline in certain markets to align with these emerging policies.

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.

Climate Change

Parkland does not operate any industrial sites and is not a major emitter of greenhouse gases. The federal and provincial governments in Canada are formulating laws and regulations designed to limit greenhouse gas emissions which would be expected to result in a decline of consumption of petroleum products over time.

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. However, there can be no assurances that such mitigation efforts will be successful in any circumstance and 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.

In March 2010, Parkland commenced the implementation of an upgrade to its ERP system. The ERP implementation included the conversion and integration of existing legacy applications and the re-engineering of many processes and controls. The March 2010 implementation caused difficulties in processing transactions, issuing invoices and collecting accounts receivable on a timely basis and resulted in increased working capital requirements. While Parkland has made efforts to address the implementation challenges experienced, there is risk that components of the ERP system and related applications will not perform as planned, data could be lost and business could be disrupted. In addition, because of invoicing complications many customer accounts have paid outside of normal terms, certain customers' accounts may not be collected and certain customers may choose to discontinue dealing with Parkland. If the implementation challenges experienced are not fully overcome or additional difficulties or problems are encountered during the continuing implementation of the ERP system or the integration of other businesses with the ERP system, Parkland could experience disruptions to its business and operations that could have a material adverse effect on its business and could impair its ability to report its operating results on a timely and accurate basis.

Insurance

Although Parkland has a comprehensive insurance program in effect, there can be no assurance that potential liabilities will not exceed the applicable coverage limits under Parkland's 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. The Corporation maintains insurance coverage for most environmental risk areas, excluding underground tanks at service stations. Although not insured, these risks are managed through ongoing monitoring, inventory reconciliations and tank replacement programs.

Interest Rates

Most of Parkland's loans have floating rates and may be negatively impacted by increases in interest rates, the effect of such increases would be to reduce the amount of cash available for distributions. In addition, the market price of the shares at any given time may be affected by the level of interest rates prevailing at such time. The $97.8 million principal amount of series 1 convertible unsecured subordinated debentures bear interest at a 5 year annual fixed rate of 6.5% payable semi-annually in arrears on November 30 and May 31 in each year commencing May 31, 2010. The $45.0 million principal amount of series 2 convertible unsecured subordinated debentures bear interest at a 5 year annual fixed rate of 5.75% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2011. The fixed rates of the series 1 and series 2 convertible secured subordinated debentures reduce Parkland's exposure to variable rates.

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 profitability of the Corporation.

Refinery Operating Permit

The Bowden refinery has operated 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. An estimate of the potential future remediation cost has been accrued and provided for in Parkland's financial statements.

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 Parkland's sites are located in markets which are more severely affected by weak economic conditions. With the acquisition of Bluewave Energy, Parkland has added Atlantic Canada economic exposure risk and at the same time has diversified overall Canadian exposure that was previously heavily weighted to Western Canada variables.

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

Although Parkland intends to distribute a significant portion of the income earned by the Corporation, less expenses, income taxes and amounts, if any, paid by the Corporation in connection with the redemption of shares, there can be no assurance regarding the amounts of income to be generated by the business. Parkland's Board of Directors will, at their discretion, determine the amount of any future dividends payable. The actual dividend will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins and capital expenditures.

Capital Investment

The timing and amount of expenditures for business acquisitions, additions of property, plant and equipment and intangibles will directly affect the amount of cash available for distribution to shareholders. Dividends may be substantially reduced at times when significant capital or other expenditures are made.

Restrictions on Potential Growth

The payout by Parkland 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 Parkland and its cash flow.

Legal Proceedings

The Corporation is subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Corporation believes that the amount of liability, if any, from these actions would not have a material effect on the Corporation's financial position or results of operations.

SUPPLEMENTARY INFORMATION

Parkland seeks to provide relevant information to allow investors to evaluate its operations. The nature of this information is limited by competitive sensitivities, confidentiality terms in written agreements and Parkland's policy not to provide guidance regarding future earnings. Parkland has developed a template of supplementary information that is published with each quarterly financial report. For persons seeking information regarding fuel margins please refer to outside sources including: websites of western Canadian refiners, Bloomberg's Oil Buyers Guide, Nymex contracts for gasoline and crude oil as well as Government of Canada and Natural Resources Canada reports. Data from these sources will not be sufficient to calculate Parkland's fuel margin given that it does not correlate directly with the Corporation's market region and supply contracts, but should indicate margin trends.

CONTROLS ENVIRONMENT

Management is responsible for the preparation and fair presentation of the consolidated financial statements. Parkland has 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. Parkland's 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. Due to the inherent limitations in all control systems, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Parkland, under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the design and operating effectiveness of its disclosure controls and procedures and internal control over financial reporting pursuant to National Instrument 52-109 "Certification 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 Parkland's disclosure controls and procedures provide reasonable assurance that information required is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators and 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 Parkland's management, including Parkland's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Furthermore, it was concluded that the design and operating effectiveness of Parkland's internal controls over financial reporting (including the ERP system implemented in March 2010 and compensating controls established in connection with the implementation of such ERP system) provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

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

Significant Change in Internal Controls

Parkland has undergone extensive business process re-engineering and an upgrade of its ERP software. The upgraded system was implemented on March 1, 2010 with the following objectives:

- 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 (initially excluding Columbia Fuels and Bluewave); and
- Complete the integration of the acquired companies by merging systems, processes, controls and operations.

Due to the size and complexity of the ERP implementation the stabilization in certain areas continued through the fourth quarter of 2010. During 2010, certain controls could not be performed as originally designed due to a change in the reporting functionality as a result of the new system and due to issues encountered earlier in the year pertaining to the initial implementation phase. To compensate for such deficiencies, and address initial implementation complications additional account reconciliations, specific transaction price and volume testing procedures, Senior Management review of adjustments and operating results including comparisons to budget and prior period(s), and other analytical procedures were designed and operated effectively throughout the year and at quarter-ends which mitigated against the risks from the introduction of the ERP system into the organization's control structure. A dedicated team has also been in place to monitor resolution of issues through the year under the guidance and supervision of a sub-committee of the Board of Directors. Parkland is of the view that the compensating controls designed and implemented to compensate for the deficiencies identified during the ERP system implementation operated effectively throughout the year, and adequately mitigated against certain financial reporting risks inherent in such deficiencies. Such compensating controls have been designed by, or under the supervision of, Parkland's Chief Executive Officer and Chief Financial Officer. While management is of the view that the steps taken to compensate for the control deficiencies encountered during the implementation of the ERP system and its ongoing efforts are reasonable and adequate, the design and implementation of any system of control is also based upon certain assumptions about the likelihood of future events, and there can be no assurance that the design or the implementation of any system of control (including compensating controls) will succeed in achieving its stated goals under all potential conditions.

On December 30, 2010 Parkland acquired Island Petroleum and began the process of integrating its processes and controls with Parkland's systems. Given that the acquisition occurred on December 30, 2010, management has not had sufficient time to assess the effectiveness of the design and operation of Island Petroleum's internal controls. Therefore management excluded this business from its evaluation of disclosure controls and internal controls over financial reporting as at December 31, 2010. Assets associated with this business represent approximately 3% of Parkland's consolidated total assets as at December 31, 2010 and revenues are nominal.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, Parkland will adopt IFRS as the basis for preparing its consolidated financial statements. Parkland will report the financial results for the quarter ended March 31, 2011 on an IFRS basis. Parkland will also provide comparative 2010 data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

Since 2008, Parkland has been engaged in assessing the IFRS conversion impact on accounting policies and procedures, on the financial statements and on business activities. In addition, Parkland has engaged external consultants and dedicated internal staff resources to assist with the assessment of appropriate accounting policies and with the development of an IFRS conversion and implementation plan. The Corporation's technical analysis and recommended accounting policies are currently being considered by Parkland's auditors.

The following areas have been identified as potentially having a high to moderate impact in terms of work-load and/or financial statement adjustment compared to GAAP. The operational impact is expected to be minor and the Corporation is analyzing the potential impact on loan covenants.

IFRS Standard	Key Issues Impacting Parkland	Status
Fund Units (IAS 32)	Under IFRS, prior to the conversion to a corporation on December 31, 2010, unitholder's capital balances may be classified as debt or equity in the financial statements of Parkland.	Parkland is in the process of concluding the classification of unit holders capital balances under IFRS rules. Fund Units and the Class B and C Limited Partnership Units could be classified as liabilities or as equity, depending upon the interpretation of certain IFRS criteria. The final liability or equity position will only impact the presentation of 2010 comparative information and will not impact any debt covenants.
Property, Plant and Equipment (IAS 16 & IFRS 1)	IFRS requires a componentization approach, separately identifying and measuring significant individual components of assets which have different useful lives. Significant components will be depreciated based on their individual useful lives. IFRS guidance on componentization and treatment of subsequent costs (major overhauls, servicing and replacement components) is more robust than under Canadian GAAP. Review of estimates of useful lives, residual values and depreciation methods at each financial year-end is required under IFRS. An entity may choose between using the cost model (identical to Canadian GAAP) or the revaluation model for subsequent measurement of Property, Plant and Equipment.	New capital asset management policies have been developed by Parkland; the implementation analysis has been completed and IFRS conversion plans are established. IFRS requires the accrual of decommissioning costs where a constructive obligation exists. The impact is being estimated for each applicable Parkland site using current cost estimates and current inflation and risk-free interest rates. Parkland has over 100 properties, many of which were acquired at least ten years ago and may require adjustment on the balance sheet to include decommissioning costs, which would also increase the book value of these assets. Parkland will value its Property, Plant and Equipment using the cost model on conversion.

IFRS Standard	Key Issues Impacting Parkland	Status
Impairment (IAS 36)	IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under existing Canadian GAAP (using undiscounted cash flows as a trigger to identify potential impairment loss). IFRS requires reversal of impairment losses (excluding goodwill) where previous adverse circumstances have changed; this is prohibited under existing Canadian GAAP. Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a smallest independent cash generating unit ("CGU") which is considered to be at a lower level than existing Canadian GAAP testing requirements (i.e. reporting unit).	The application of the IFRS standard should result in discounted cash flow testing being applied to smaller groups of assets. This could result in additional impairment expenses for asset impairment. These additional expenses could however be reversed subsequently. Parkland expects that this standard will have no significant impact on the consolidated opening balance sheet under IFRS.
Business Combinations (IFRS 3)	IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, Business combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. Applying IFRS 3 retrospectively would require a significant amount of analysis and work to restate business combination transactions that have occurred since Parkland's inception.	Parkland intends to utilize exemptions on conversion with respect to prior business acquisitions so that the application of IFRS 3R will not be applied to acquisitions before January 1, 2010. These exemptions on conversion will allow Parkland to carry forward past business acquisitions at historically recorded values, excluding regular reviews for impairment.

The above list of key IFRS issues should not be regarded as an exhaustive list of changes expected to impact Parkland from the transition to IFRS. It is intended to highlight those areas the Corporation believes to be most significant. IFRS standards that may result in accounting differences compared to existing Canadian GAAP in reporting the impact of taxation have neither been identified nor expected to be significant. At the current stage of the IFRS conversion project, the full quantitative impact of the adoption of IFRS on the consolidated financial statements cannot be reasonably established.

Since 2008, Management has provided an IFRS update presentation to its Audit Committee at each quarterly meeting. Management has provided the Audit Committee and the Board of Directors with a timeline for implementation, the implications of IFRS standards to the business and an overview of the areas of potential impact on the financial statements.

A pro-forma draft of the 2011 first quarter financial statements (ended March 31, 2011) is being prepared for management to facilitate the assessment of internal controls over financial reporting, and disclosure controls and procedures. As management completes the reviews of accounting policies and procedures and of financial statement presentation including note disclosures and as changes are made to Parkland's ERP system, appropriate changes will be made to ensure the continuing integrity of internal controls.

Parkland has identified resource requirements to establish appropriate IFRS financial reporting expertise within the business. Key staff have been trained and new staff have been hired to support the IFRS conversion including staff at Bluewave. IFRS training will be an integral part of ongoing professional development for accounting staff.

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 ($000's) under the existing terms are as follows:

Year ended December 31,

($000's)	Mortgages, bank indebtedness, bank loans, notes payable, and convertible debentures	Other Long Term Liabilities	Operating Leases	Capital Leases
2011	79,218	1,223	7,088	1,365
2012	157,848	2,271	6,089	2,731
2013	78,923	268	5,358	687
2014	97,750	–	3,952	91
2015	45,000	–	3,566	60
Thereafter	–	–	15,615	739
	458,739	3,762	41,668	5,673

The Corporation also has purchase commitments under its fuel supply contracts that require the purchase of approximately 2.0 billion litres of product over the next year.

The series 1 convertible unsecured subordinated debentures are convertible into common shares at the option of the holder at any time up to the maturity on November 30, 2014 at a conversion price of $14.60 per share. The series 2 convertible unsecured subordinated debentures are convertible into shares at the option of the holder at any time up to the maturity on December 31, 2015 at a conversion price of $18.00 per share.

SHARES OUTSTANDING

As at March 14, 2011, Parkland had approximately 53.9 million shares outstanding and 0.3 million share options outstanding. All of the options outstanding are currently exercisable into shares.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Parkland Fuel Corporation ("Parkland") have been prepared by management in accordance with Canadian 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 shareholders of Parkland to serve as external auditors. They have examined the consolidated financial statements of Parkland for the years ended December 31, 2010 and 2009.

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 consolidated financial statements of Parkland which are contained in this report.

/s/
Michael W. Chorlton
President and CEO
Red Deer, Alberta
March 14, 2011

/s/
Kenneth J. Grondin
Senior Vice President and CFO
Red Deer, Alberta
March 14, 2011

March 14, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Parkland Fuel Corporation (formerly Parkland Income Fund)

We have audited the accompanying consolidated financial statements of Parkland Fuel Corporation (formerly Parkland Income Fund) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and 2009 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 then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parkland Fuel Corporation (formerly Parkland Income Fund) as at December 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/
Pricewaterhousecoopers

Chartered Accountants
Calgary, Alberta

CONSOLIDATED BALANCE SHEET

($000's)	December 31, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	18,523	17,612
Accounts receivable (Note 4)	284,470	114,763
Income tax recoverable	788	771
Inventories (Note 5)	61,722	51,757
Prepaid expenses and other	11,703	8,146
	377,206	193,049
Property, plant and equipment (Note 6)	235,970	210,985
Intangible assets (Note 7)	118,352	35,485
Goodwill (Note 8)	93,925	28,269
Other long-term assets (Note 9)	3,585	2,927
Future income taxes (Note 24)	10,651	3,620
	839,689	474,335
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	168,778	106,047
Distributions declared and payable	5,622	5,205
Deferred revenue	5,215	5,520
Long-term debt – current portion (Note 10)	80,392	13,939
Other long-term liabilities – current portion (Note 11)	1,223	–
	261,230	130,711
Long-term debt (Note 10)	240,649	41,030
Other long-term liabilities (Note 11)	2,339	–
Convertible debentures (Note 12)	130,262	87,827
Asset retirement obligations (Note 13)	6,386	5,462
Refinery remediation accrual (Note 14)	6,827	6,527
Future income taxes (Note 24)	–	12,020
	647,693	283,577
Shareholders' Equity		
Shareholders' capital (Note 15)	183,632	185,070
Convertible debenture equity (Note 12)	8,364	5,688
	191,996	190,758
	839,689	474,335

See accompanying notes to consolidated financial statements.
Commitments (Note 25)

Signed on behalf of the Board of Directors:

/s/
James Pantelidis
Chairman of the Board

/s/
Mike Chorlton
President and CEO

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME AND RETAINED EARNINGS

	Year ended	
($000's except per share/unit amounts)	December 31, 2010	December 31, 2009
Net sales and operating revenue	2,913,420	2,020,016
Cost of sales, excluding amortization	2,575,009	1,770,891
Gross profit	338,411	249,125
Expenses		
Operating and direct costs	159,447	106,903
Marketing, general and administrative	75,542	51,382
Amortization	62,593	37,878
Refinery remediation	300	420
Accretion expense on asset retirement obligations	52	184
Interest on long-term debt	18,817	5,119
Interest and accretion on convertible debentures	8,479	633
Gain on disposal of property, plant and equipment	(3,119)	(863)
	322,111	201,656
Earnings before income taxes	16,300	47,469
Income tax recovery		
Current	–	(450)
Future	(13,894)	(685)
	(13,894)	(1,135)
Net earnings	30,194	48,604
Comprehensive income	30,194	48,604
Retained earnings, beginning of the year	–	–
Allocation to Class B Limited Partners (Note 15)	(1,474)	(2,730)
Allocation to Class C Limited Partners (Note 15)	(1,070)	(5,174)
Allocation to Unitholders (Note 15)	(27,650)	(40,700)
Retained earnings, end of the year	–	–
Net earnings per share/unit (Note 3)		
– basic	$ 0.58	$ 0.97
– diluted	$ 0.58	$ 0.97
Share/units outstanding (000's) (Note 15)	53,164	50,194

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended
($000's)	December 31, 2010	December 31, 2009
Cash Provided By Operations		
Net earnings	30,194	48,604
Add (deduct) non-cash items		
Amortization	62,593	37,878
Gain on disposal of property, plant and equipment	(3,119)	(863)
Unit incentive compensation (Note 15)	2,798	2,950
Refinery remediation accrual	300	420
Accretion expense on asset retirement obligation	52	184
Accretion on convertible debenture (Note 12)	2,110	75
Future taxes	(13,894)	(685)
Funds flow from operations[1]	81,034	88,563
Cash expenditures on asset retirement obligation	(297)	(280)
Net changes in non-cash working capital (Note 27)	(76,268)	24,109
Cash from operating activities	4,469	112,392
Financing Activities		
Long-term debt repayments	(94,649)	(115,326)
Proceeds from long-term debt	353,392	54,812
Distributions to Class B Limited Partners (Note 15)	(3,223)	(3,443)
Distributions to Class C Limited Partners (Note 15)	(2,395)	(6,689)
Distributions to Unitholders (Note 15)	(59,819)	(52,152)
Fund units issued for cash (Note 15)	4,157	2,309
Convertible debenture equity (Note 12)	2,676	5,688
Issue of series 1 convertible debenture, net of issue costs (Note 12)	–	87,752
Issue of series 2 convertible debenture, net of issue costs (Note 12)	40,325	–
Net changes in non-cash working capital (Note 27)	417	(90)
Cash from (used for) financing activities	240,881	(27,139)
Investing Activities		
Acquisition of Shell Distribution Agreement (Note 18)	(2,000)	–
Acquisition of Bluewave Energy (Note 19)	(207,724)	–
Acquisition of Eagle Marine (Note 20)	–	(2,819)
Acquisition of Anmart Fuels fuel marketing business (Note 21)	–	(4,812)
Acquisition of Columbia Fuels (Note 22)	–	(33,483)
Acquisition of Imperial Oil Customer Volume (Note 23)	–	(7,200)
Change in other assets	(210)	(228)
Additions of property, plant and equipment	(34,874)	(31,489)
Additions of intangibles	(5,998)	(12,101)
Proceeds on sale of property, plant and equipment	6,367	4,962
Cash used for investing activities	(244,439)	(87,170)
Increase (decrease) in cash and cash equivalents	911	(1,917)
Cash and cash equivalents, beginning of the year	17,612	19,529
Cash and cash equivalents, end of period	18,523	17,612

See accompanying notes to consolidated financial statements.

(1) A non-GAAP financial measure.

Notes to Consolidated Financial Statements

December 31, 2010

All amounts presented in thousands of Canadian dollars and thousands of shares/units, except per share/per unit information.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Corporate Structure and the Conversion

Parkland Fuel Corporation was incorporated under the laws of the Province of Alberta on March 9, 2010. Parkland Fuel Corporation and its wholly owned subsidiaries Parkland Industries Ltd, Bluewave Energy Ltd, Neufeld Petroleum & Propane Ltd, Parkland Refining Ltd, Columbia Fuels Ltd and United Petroleum Products Inc (collectively the "Corporation") are a leading Canadian independent marketer and distributor of fuels, managing a nationwide network of sales channels for retail, commercial, wholesale and home heating fuel customers.

On October 31, 2006, the Canadian Minister of Finance announced the Specified Investment Flow Through Trust (SIFT) income and distribution tax, which became effective January 1, 2011. At the annual and special meeting of the Parkland Income Fund (the "Fund") on May 3, 2010 the securityholders approved the conversion of the Fund to a corporation (the "Conversion") by way of a plan of arrangement under the Business Corporations Act (Alberta). The Court of Queen's Bench of Alberta issued its final order approving the Conversion on May 4, 2010.

Pursuant to the Conversion, on December 31, 2010:

(i) All outstanding units of the Fund and all outstanding Class B units and Class C units of Parkland Holdings Limited Partnership were exchanged for common shares in the capital of Parkland Fuel Corporation on a one-for-one basis. Accordingly, the terms "shares" and "units" are used interchangeably throughout these financial statements.

(ii) All of the covenants and obligations of the Fund under the 6.5% series 1 convertible unsecured subordinated debentures and the 5.75% series 2 convertible unsecured subordinated debentures (together the "Debentures") of the Fund were assumed by the Corporation.

(iii) All outstanding incentive rights and obligations under the Fund's unit option plan and restricted unit plan were assumed by the Corporation on the same terms and conditions.

Prior to the Conversion on December 31, 2010, the consolidated financial statements included the accounts of the Fund and its subsidiaries, partnerships and trusts. After giving effect to the Conversion, the consolidated financial statements have been prepared on a continuity of interests basis, which recognizes Parkland Fuel Corporation as the successor entity to the Fund (collectively "Parkland").

Basis of Presentation

The Consolidated Financial Statements include the accounts of Parkland Fuel Corporation and its wholly-owned subsidiaries. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

Use of Estimates

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and approximations for accounting purposes. These estimates are subject to measurement uncertainity and should the underlying assumption change the actual amounts could differ from those estimated. Estimates include amortization, accretion, future asset retirement obligations, future income taxes, the equity component of the Debentures and impairment calculations.

Financial Instruments

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.

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications: held for trading, held-to-maturity, loans and receivables, 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.

Parkland'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 Parkland 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.

Parkland 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.

Parkland has designated other long-term assets as loans and receivables. Parkland has designated long-term debt, other long-term liabilities and the convertible debentures as other financial liabilities.

(iv) Available-for-sale

Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value is recorded in other comprehensive income and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is transferred into earnings.

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

Parkland accounts for debt issue costs by capitalizing or deferring as a contra-liability and accreting such costs back to the debt over its life.

All guarantees upon inception are 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

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

Property, Plant & Equipment

Property, plant and equipment are recorded at cost. Where costs are incurred to extend the useful life of property, plant and equipment or to upgrade its capabilities, the amounts are capitalized to the related asset. Costs incurred to repair or maintain property, plant and equipment are expensed as incurred. Parkland assesses the value of its capital assets for impairment and adjusts to the lower of cost or market value at year end.

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 and agreements are recorded at estimated fair value and are amortized using the straight-line method over their estimated useful lives of 5 years. The value of non-compete agreements acquired is recorded at estimated fair value and is 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. Software systems have been capitalized as part of the cost of intangible assets and are being amortized using the straight-line method over the estimated useful life of 10 years.

Goodwill

Parkland records goodwill relating to corporate acquisitions 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 reporting entity is less than the book value, impairment is measured by allocating the fair value of the reporting entity to the identifiable assets and liabilities as if the reporting entity 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.

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 Parkland.

Income Taxes

Parkland follows the liability method of accounting for income taxes. Future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax basis. Future income tax expense is computed based on the change during the year in the future income tax assets and liabilities. Effects of changes in tax laws and tax rates are recognized when substantially enacted. Income tax assets are also recognized for the benefits from tax losses and deductions with no accounting basis, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of estimated realization.

Asset Retirement Obligations

The estimated future costs to remove underground fuel storage tanks at locations where Parkland 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. Parkland 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.

Refinery Remediation Accrual

The estimated future discounted cost of remediation of the Bowden refinery is recorded as a liability in the financial statements. Parkland recognizes accretion in refinery remediation expense to reflect the change in the discounted value of the liabilty to remediate the site during the period. The discount rate used to determine the present value of the future costs is 6.9% (2009 – 6.9%).

Earnings Per Share/Unit

Basic earnings per share/unit are calculated on the weighted average number of shares/units outstanding for the period. Diluted earnings per share/unit are calculated by application of the Treasury Stock Method to determine the dilutive effects of the Debentures. Under this method the diluted number of shares/units are calculated based upon the weighted average number of shares/units outstanding for the period plus the dilutive effect of the exercise of those employee options which were "in-the-money" during the period. The number of dilutive shares/units is determined by adding the weighted average shares/units and the shares/units issuable on conversion of the Debentures, thereby giving effect to the potential dilution that would occur had conversion occurred at the beginning of the period or on issuance of the convertible instrument, whichever is later.

Revenue

Parkland recognizes revenue on its sale of goods and services when title passes to the purchaser, physical delivery has occurred and collection is reasonably assured. The major categories of revenue include retail and commercial fuel, heating oil, lubricants, agricultural products, convience store merchandise sales and trucking of fuel and other products.

Grants of Options and Restricted Units

Parkland accounts for its grants of options and restricted shares/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.

Vendor Rebates

Vendor rebates are received for high volume inventory purchases and are recorded initially as a reduction to inventory with a subsequent reduction in cost of sales when the product is sold.

2. CHANGES IN ACCOUNTING POLICIES

Future

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Canadian publically accountable enterprises will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, Parkland will adopt IFRS as the basis for preparing the consolidated financial statements. Parkland will report the financial results for the quarter ended March 31, 2011 on an IFRS basis.

3. EARNINGS ANALYSIS AND EARNINGS PER SHARE/UNIT

	Year ended	
(000's, except per share/unit amounts)	December 31, 2010	December 31, 2009
Net earnings	30,194	48,604
Earnings per share/unit		
– basic	$ 0.58	$ 0.97
– diluted	$ 0.58	$ 0.97
Equivalent share/units outstanding, beginning of year	50,194	49,665
Weighted average of Class C units issued	1,145	149
Weighted average of Fund units issued	88	–
Weighted average of equivalent shares/units issued pursuant to restricted unit plan	249	133
Weighted average of equivalent shares/units issued pursuant to distribution reinvestment plan	135	79
Weighted average of equivalent shares/units issued pursuant to exercise of unit options	152	60
Denominator utilized in basic earnings per share/unit	51,963	50,086
Incremental equivalent shares/units options that were dilutive	150	143
Denominator utilized in diluted earnings per share/unit	52,113	50,229

The diluted earnings per share calculation does not include the impact of anti-dilutive Debentures. The Debentures would not be converted to shares during the period because the current period interest (net of tax) per share obtainable on conversion exceeds basic earnings per share. The number of shares issuable on conversion of the Debentures excluded for 2010 was 6,903 (557 in 2009).

4. ACCOUNTS RECEIVABLE

($000's)	December 31, 2010	December 31, 2009
Bluewave Energy trade accounts receivable	78,454	–
Island Petroleum trade accounts receivable	7,441	–
Balance of Parkland trade accounts receivable	162,214	110,858
Miscellaneous, government and other non-trade accounts receivable	44,614	7,505
Allowance for doubtful accounts	(8,253)	(3,600)
	284,470	114,763

5. INVENTORIES

($000's)	December 31, 2010	December 31, 2009
Gas and diesel	41,691	36,261
Agricultural inputs	5,397	4,848
Convenience store merchandise	2,026	1,962
Lubricants	8,932	4,174
Propane	1,601	1,364
Other	2,075	3,148
	61,722	51,757

For the year ended December 31, 2010, the amount of inventory recognized as an expense amounted to $2,575,009 (2009 – $1,770,891).

6. PROPERTY, PLANT AND EQUIPMENT

December 31, 2010

($000's)	Cost	Accumulated Amortization	Net Book Value
Land	33,530	–	33,530
Land improvements	19,509	4,916	14,593
Buildings	70,941	20,266	50,675
Assets under capital lease	7,141	1,181	5,960
Equipment	255,081	123,869	131,212
	386,202	150,232	235,970

December 31, 2009

($000's)	Cost	Accumulated Amortization	Net Book Value
Land	31,714	–	31,714
Land improvements	13,449	3,548	9,901
Buildings	66,444	16,953	49,491
Assets under capital lease	4,302	666	3,636
Equipment	211,587	95,344	116,243
	327,496	116,511	210,985

7. INTANGIBLE ASSETS

December 31, 2010

($000's)	Cost	Accumulated Amortization	Net Book Value
Customer relationships	127,674	31,353	96,321
Tradenames	6,366	4,060	2,306
Non-compete agreements	3,308	1,204	2,104
Software systems	18,073	452	17,621
	155,421	37,069	118,352

December 31, 2009

($000's)	Cost	Accumulated Amortization	Net Book Value
Customer relationships	29,696	9,962	19,734
Tradenames	4,966	2,819	2,147
Non-compete agreements	2,171	668	1,503
Software systems	12,101	–	12,101
	48,934	13,449	35,485

8. GOODWILL

($000's)	2010	2009
Balance, beginning of the year	28,269	13,500
Acquired through Island Petroleum Ltd. purchase (note 17)	2,749	–
Acquired through Bluewave Energy purchase (note 19)	62,907	–
Acquired through Eagle Marine Ltd. purchase (note 20)	–	400
Acquired through Anmart Fuels purchase (note 21)	–	188
Acquired through Columbia Fuels Ltd. purchase (note 22)	–	14,181
Balance, end of the year	93,925	28,269

9. OTHER LONG-TERM ASSETS

Other long-term assets consisting of loans to retail and commercial dealers are receivable in monthly instalments of $144 (December 31, 2009 – $80), bear interest at rates ranging between nil % and 10.75% (December 31, 2009 – nil % and 10.75 %) and are secured by specific assets of the mortgagee.

10. FINANCING AND CREDIT FACILITIES

Long-term Debt

($000's)	December 31, 2010	December 31, 2009
Bank loans	24	94
Extendible facility	315,690	51,504
Mortgage payable	275	295
Capital lease obligations	5,052	3,076
	321,041	54,969
Less current portion	80,392	13,939
	240,649	41,030

Estimated repayments for the next five years are:

($000's)	2011	2012	2013	2014	2015	Thereafter	Interest expense included in minimum lease payments	Total
Obligations under capital lease	1,365	2,731	687	91	60	739	(621)	5,052
Other loans	79,218	157,848	78,923	–	–	–	–	315,989
	80,583	160,579	79,610	91	60	739	(621)	321,041

Bank Loans

Bank loans are payable in monthly instalments of $6 (2009 – $6). The bank loan is non-interest bearing and is secured by vehicles with a net book value of $124 (December 31, 2009 – $153).

Extendible Facility

On June 7, 2010 Parkland renewed the credit facility, including the operating loan, capital loan and the letters of credit. The extendible facility is a revolving extendible facility for a maximum amount of $400,000 (2009 – $265,000) with interest only payable at the bank's prime lending rate plus 2.5% to 3.75% (2009 – 2.5% to 3.75%) per annum. The extendible facility includes the following components:

(i) a revolving operating loan for working capital requirements to a maximum of $90,000 (2009 – $70,000) subject to margin calculations. As at December 31, 2010 the outstanding balances totaled $45,900 (December 31, 2009 – $28,000). The operating facility bears interest at prime plus 3.25% (2009 – 2.75%). The effective rate of interest at year end was 5.5% (December 31, 2009 – 5.00%).

(ii) a capital loan with interest only payable to a maximum of $275,000 (2009 – $150,000). As at December 31, 2010 the outstanding balances totaled $273,881 (December 31, 2009 – $23,504). The interest is payable monthly at the Bankers Acceptance rates plus 4.25% (2009 – prime lending rate plus 2.75%) per annum. The effective rate of interest at year end was 5.44% (December 31, 2009 – 5.00%).

(iii) a letter of credit facility to a maximum of $35,000 (2009 – $45,000). As at December 31, 2010, outstanding balances totaled $33,480 (December 31, 2009 – $28,500) which mature at various dates to October 29, 2011.

The extendible facility was renewed on June 7, 2010 for an additional 364 days to June 6, 2011. If the extendible facility is not extended past June 6, 2011, all amounts outstanding are repayable in eight equal and consecutive quarterly instalments, commencing on the last day of the third month following the then maturity date. The extendible facility also incurs standby fees for any unused portion of the facility at a rate of 0.875% to 1.1875% (2009 – 0.65% to 0.75%) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA" a non-GAAP financial measure, see Note 16 for a reconciliation of net earnings to EBITDA). Security for the extendible facility is the assignment of insurance and an unlimited guarantee from the secured entities.

Deferred finance charges of $3,843 ($2,683 – 2009) have reduced the value of the extendible facility and are amortized over three years.

As at December 31, 2010 Parkland was in compliance with all lender covenants.

Mortgage Payable

The mortgage is payable in yearly instalments of $20 (2009 – $20) and due February 12, 2011. Interest on the mortgage is 8% (2009 – 8%) per annum and the mortgage is secured by the land and buildings with a net book value of $1,086 (December 31, 2009 $1,800).

Capital Leases

Capital leases are payable in monthly instalments totaling $135 (2009 – $83) including interest varying from 0% to 10.37% (2009 – 0% to 10.37%). The leases are for land, buildings and equipment with a net book value of $6,113 (December 31, 2009 $3,636), and mature at various dates ending up to July 2022.

11. OTHER LONG-TERM LIABILITIES

The other long-term liabilities are non-interest bearing, with principle repayments of $1,223 required in 2011, $2,271 in 2012 and $268 in 2013. The fair value of other long-term liabilities at December 31, 2010 was of $3,562 determined using a market interest rate of 7.6%.

12. CONVERTIBLE DEBENTURES

On December 1, 2009 Parkland issued $97,750 principal amount of 6.5% series 1 convertible unsecured subordinated debentures ("Series 1 Debentures"), at a price of $1 per debenture. Interest on the Series 1 Debentures is paid semi-annually in arrears, on November 30 and May 31 in each year commencing May 31, 2010. On December 21, 2010 Parkland issued $45,000 principal amount of 5.75% series 2 convertible unsecured subordinated debentures ("Series 2 Debentures"), at a price of $1 per debenture. Interest on the Series 2 Debentures is paid semi-annually in arrears, on June 30 and December 31 in each year commencing June 30, 2011. Collectively the Series 1 Debentures and the Series 2 Debentures are referred to as the "Debentures". The Debentures are convertible at the option of the holder at any time into common shares of the Corporation at a conversion price of $14.60 per share for the Series 1 Debentures and $18.00 per share for the Series 2 Debentures. The Series 1 Debentures mature on November 30, 2014 and the Series 2 Debentures mature on December 31, 2015 at which time the Debentures are due and payable. The Series 1 Debentures may be redeemed in whole or in part at the option of Parkland on or after November 30, 2012 and prior to November 30, 2013 and the Series 2 Debentures may be redeemed in whole or in part at the option of Parkland on or after December 31, 2013 and prior to December 31, 2014, on not more than 60 days and not less than 30 days prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the current market price of the common shares of Parkland on the date immediately preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. The Debentures may be redeemed prior to their maturity dates in whole or in part at a price equal to their principal amount plus accrued and unpaid interest on or after November 30, 2013 for the Series 1 Debentures and on or after December 31, 2014 for the Series 2 Debentures . Upon the maturity or redemption of the Debentures, Parkland may pay the outstanding principal of the Debentures in cash or may at its option, on not greater than 60 days and not less than 40 days prior notice and subject to regulatory approval, elect to satisfy its obligations to repay all or a portion of the principal amount of the Debentures which have matured or been redeemed by issuing and delivering that number of common shares obtained by dividing the aggregate principal amount of the Debentures which have matured or redeemed by 95% of the weighted average trading price of the common shares of Parkland on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the maturity date, as the case may be. Any accrued and unpaid interest thereon will be paid in cash.

The Debentures are classified as debt on the balance sheet with a portion of the proceeds allocated to equity, representing the value of the conversion feature. The residual method was used to value the debt and equity and the interest rate used to value the debt component was 8% for the Series 1 Debentures and 7.25% for the Series 2 Debentures. As the Debentures are converted to common shares of Parkland, a portion of the debt and equity amounts will be transferred to Shareholders' Capital. The debt component of the convertible debentures is carried net of issue costs. The debt balance, net of issue costs, accretes over time to the principal amount owing on maturity. Using the effective interest rate method, the accretion of the debt discount and the interest paid to debenture holders are expensed each period as part of the item line "interest and accretion on convertible debentures" in the Consolidated Statements of Earnings and Comprehensive Income and Retained Earnings. The following table reconciles the principal amount, debt component and equity component of the Debentures.

			2010			2009
($000's)	Principal Amount of Debentures	Convertible Debenture Debt	Convertible Debenture Equity	Principal Amount of Debentures	Convertible Debenture Debt	Convertible Debenture Equity
Series 1 Debentures						
Balance, beginning of the year	97,750	87,827	5,688	–	–	–
December 1, 2009 issuance	–	–	–	97,750	91,800	5,950
Issue costs	–	–	–	–	(4,048)	(262)
Accretion	–	2,109	–	–	75	–
Balance, end of the year	97,750	89,936	5,688	97,750	87,827	5,688
Series 2 Debentures						
Balance, beginning of the year	–	–	–	–	–	–
December 1, 2010 issuance	45,000	42,200	2,800	–	–	–
Issue costs	–	(1,875)	(124)	–	–	–
Accretion	–	1	–	–	–	–
Balance, end of year	45,000	40,326	2,676	–	–	–
Series 1 and Series 2 debentures, end of year	142,750	130,262	8,364	97,750	87,827	5,688

13. ASSET RETIREMENT OBLIGATIONS

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

($000's)	2010	2009
Asset retirement obligations, beginning of year	5,462	3,094
Additions during the year	1,702	2,184
Change in estimates	(830)	–
Accretion expense	52	184
Asset retirement obligations, end of year	6,386	5,462

Parkland 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 Parkland's cost to remove these tanks. The total undiscounted estimated future cash flows required to settle Parkland's obligation increased to $8,037 in fiscal 2010 (2009 – $7,249), which primarily reflects Parkland's addition of new leased sites. The costs are expected to be incurred between 2011 and 2027. At December 31, 2010, the discount rate used to determine the present value of the future costs ranges from 3.20% to 6.90% (2009 3.43% to 6.9%).

14. REFINERY REMEDIATION ACCRUAL

($000's)	2010	2009
Refinery remediation accrual, beginning of year	6,527	6,107
Accretion expense	300	420
Refinery remediation accrual, end of year	6,827	6,527

In December 2004, Parkland eliminated the carrying value of its Bowden refinery and recorded a net liability of $3,400 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 Parkland's cost to remediate the site.

Parkland has previously used the refinery site for processing fluids used in the oilfields. The contract was terminated and Parkland is therefore continuing to pursue other economically viable uses for the refinery site. Parkland has used the tanks for storage in the past three years and has been upgrading the equipment for the railroad terminal and plans to use the tanks for storage and shipping product by rail. Therefore any decision to dismantle, remediate and sell the refinery site has been deferred indefinitely. The obligations relating to future environmental remediation, however, continue to exist.

Assuming Parkland continues operations at the refinery site, remediation for any potential environmental liabilities associated with a complete dismantling of the site would be delayed indefinitely. Parkland 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 using 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 $13,800 (2009 – $13,800) net of salvage value of equipment and will be accreted. 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% (2009 – 6.9%).

15. SHAREHOLDERS' CAPITAL

a) Unitholders' Capital

Authorized capital of the Fund consisted of an unlimited number of Fund units and Class B and Class C Limited Partnership ("LP") units.

Fund units represented an undivided interest in the Fund. Class B and Class C LP units represented a partnership interest in Parkland Holdings Limited Partnership and were exchangeable on a one-for-one basis into Fund units. Fund unitholders and Class B and Class C LP unitholders were entitled to vote at meetings of the Fund and were entitled to distributions from time to time as determined by the Board of Directors.

Parkland had no accumulated other comprehensive income at December 31, 2010 and December 31, 2009.

Unitholders' Capital

	2010		2009	
	Number of Units (000's)	Amount ($000's)	Number of Units (000's)	Amount ($000's)
Class B Limited Partnership Units				
Balance, beginning of the year	2,577	2,440	2,885	3,153
Allocation of retained earnings	–	1,474	–	2,730
Distribution to partners	–	(3,223)	–	(3,443)
Exchanged for Fund Units	(19)	(252)	(308)	–
Units cancelled under the Conversion	(2,558)	(439)	–	–
Balance, end of the year	–	–	2,577	2,440
Class C Limited Partnership Units				
Balance, beginning of the year	5,309	53,881	5,238	53,461
Issued on capital acquisition, net of issue costs	1,240	15,562	208	1,935
Allocation of retained earnings	–	1,070	–	5,174
Distribution to partners	–	(2,395)	–	(6,689)
Exchanged for Fund Units	(4,825)	(60,726)	(137)	–
Units cancelled under the Conversion	(1,724)	(7,392)	–	–
Balance, end of the year	–	–	5,309	53,881
Fund Units				
Balance, beginning of the year	42,308	128,749	41,542	134,942
Allocation of retained earnings	–	27,650	–	40,700
Issued on vesting of restricted units	249	–	136	–
Unit incentive compensation	–	2,798	–	2,950
Issued for cash, net of issue costs	–	–	4	35
Issued on capital acquisition, net of issue costs	1,036	11,288	–	–
Issued under distribution reinvestment plan	256	2,897	144	1,332
Issued under unit option plan	189	1,260	146	942
Distribution to unitholders	–	(59,819)	–	(52,152)
Exchange of Limited Partnership Units	4,844	60,978	445	–
Expired exchange units	–	–	(109)	–
Units cancelled under the Conversion	(48,882)	(175,801)	–	–
Balance, end of the year	–	–	42,308	128,749
Total For Fund, Class B, Class C	–	–	50,194	185,070

b) Shareholders' Capital

Authorized capital of Parkland Fuel Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

	2010		2009	
(000's)	Number of Shares	Amount	Number of Shares	Amount
Shares				
Balance, beginning of the year	–	–	–	–
Common shares issued pursuant to the Conversion	53,164	183,632	–	–
Balance, end of the year	53,164	183,632	–	–

c) Unit Option Plan

Parkland had a Unit Option Plan under which Parkland may grant up to 3,600 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.

Exercise prices for outstanding options at December 31, 2010 have the following ranges: 33 from $4.15 – $5.87, 83 from $6.32 – $6.68 and 231 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 two to five years.

The Corporation accounts for its grants of options using the fair value based method of accounting for stock based compensation. The total cost to be reported in 2010 is $0 (2009 – $200) and is included in the marketing, general and administrative expenses.

	2010		2009	
(000's except per share/unit amounts)	Number of Units	Average Exercise Price	Number of Units	Average Exercise Price
Option units, beginning of the year	536	$ 6.62	682	$ 6.58
Exercised	(189)	6.30	(146)	6.45
Option units, end of the year	347	$ 6.79	536	$ 6.62
Exercisable options, end of the year	347	$ 6.79	536	$ 6.62

At the May 3, 2010 Annual and Special Meeting, Parkland received approval from unitholders to implement a new option plan for the Corporation starting in January 2011 (the "New Option Plan"). The issuance from treasury under the New Option Plan, together with any other compensation arrangement, shall not exceed 10% of the issued and outstanding common shares. The eligible participants are officers, employees or consultants of the Corporation. The exercise price shall be fixed by the Board of Directors at the time of grant; provided that the exercise price shall not be less than fair market value of the common shares. All units granted under the Unit Option Plan were transferred under the same terms and conditions to options for common shares under the Conversion.

d) Restricted Unit Plan

Effective January 1, 2006, Parkland adopted a Restricted Unit Plan to complement the Unit Option Plan. Under the Restricted Unit Plan the units granted in 2006 vest over a five year period and the units granted in 2007, 2008, 2009 and 2010 vest over a three year period. The units vestings are subject to entity performance criteria, including maintenance of monthly distributions for certain grants and vesting periods.

	2010		2009	
(000's)	Number of Units	Weighted Average Unit Price	Number of Units	Weighted Average Unit Price
Restricted units, beginning of the year	685	$ 8.28	339	$ 12.70
Granted	311	12.86	506	6.40
Issued on vesting	(249)	9.67	(136)	12.81
Cancelled	(77)	9.94	(24)	13.33
Restricted units, end of the year	670	$ 9.70	685	$ 8.28

Parkland awards certain directors, officers, employees and consultants restricted units at no cost and expenses the restricted units uniformally over their vesting period. The fair value of the award is the past ten day average closing price prior to the date of grant. The total cost to be reported for the restricted units granted in 2010 is $3,566 (2009 – $2,900). The total compensation cost that has been included in marketing, general and administrative expenses in 2010 is $2,798 (2009 – $2,950).

At the May 3, 2010 Annual and Special Meeting, Parkland received approval from unitholders to implement a new restricted share unit plan for the Corporation starting in January 2011 (the "New Restricted Share Unit Plan"). The issuance from treasury under the New Restricted Share Unit Plan, together with any other compensation arrangement, shall not exceed 10% of the issued and outstanding common shares. The new restricted units will vest over a 3 year period. The vesting of units is subject to performance conditions, including continued employment along with performance criteria. All units awarded under the Restricted Unit Plan were transferred under the same terms and conditions to common shares under the Conversion.

16. CAPITAL MANAGEMENT

Parkland's capital structure is comprised of Shareholders' Equity plus long-term debt. Parkland's objectives when managing its capital structure are to:

(i) maintain financial flexibility so as to preserve the Corporation's access to capital markets and its ability to meet its financial obligations; and

(ii) finance internally generated growth as well as potential acquisitions.

Parkland monitors its capital structure and financing requirements using non-GAAP financial metrics consisting of Net Debt to Capitalization and Net Debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The metrics are used to monitor and guide the Corporation's overall debt position as a measure of Parkland's overall financial strength and flexibility of capital structure.

Parkland currently targets a Net Debt to Capitalization ratio of below 50% on a long term basis. This target may be periodically exceeded if strategic acquisitions are available. Parkland exceeded this ratio primarily as a result of the January 2010 acquisition of Bluewave Energy. At year end, the Net Debt to Capitalization ratio was 69% (December 31, 2009 – 40%), calculated as follows:

($000's)		December 31, 2010		December 31, 2009
Long-term debt and convertible debentures, including current portion		454,865		142,796
Cash and cash equivalents		(18,523)		(17,612)
Net Debt		436,342		125,184
Shareholders' Equity		191,996		190,758
Capitalization		628,338		315,942
Net Debt to Capitalization	%	69	%	40

Parkland currently targets a Net Debt to EBITDA ratio of less than 4.0 times (3.5 times – December 31, 2009). This target may be periodically exceeded if strategic acquisitions are available. Parkland exceeded this ratio primarily as a result of the acquisition of Bluewave Energy. EBITDA from acquisitions is not included for periods prior to acquisition in the following trailing twelve-month EBITDA calculation. At December 31, 2010, the Net Debt to EBITDA ratio was 4.22 times (December 31, 2009 – 1.38 times) calculated on a trailing twelve-month basis as follows:

($000's)	December 31, 2010	December 31, 2009
Net Debt	436,342	125,184
Net earnings	30,194	48,604
Add		
Interest on long-term debt	18,817	5,119
Income tax expense	(13,894)	(1,135)
Refinery remediation	300	420
Accretion expense on asset retirement obligations	52	184
Interest and accretion on convertible debentures	8,479	633
Gain on disposal of property, plant and equipment	(3,119)	(863)
Amortization	62,593	37,878
EBITDA	103,422	90,840
Net Debt to EBITDA	4.22	1.38

The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving objectives stated above. To manage the capital structure, Parkland may adjust capital spending, adjust distributions paid to Shareholders/Unitholders, issue new equity, issue new debt or repay existing debt.

17. ACQUISITION OF ISLAND PETROLEUM LTD.

On December 30, 2010 Parkland acquired Island Petroleum Ltd., a company specializing in distribution of heating oil based in Prince Edward Island. 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:	
Intangible asset – customer relationships	12,139
Intangible asset – non-compete agreement	537
Goodwill	2,749
Property, plant and equipment	4,100
Working capital	4,423
	23,948
Consideration:	
Deferred Payment included in accounts payable and accrued liabilities	12,111
Fund units	11,287
Acquisition costs	550
	23,948
Non cash consideration:	
Deferred Payment included in accounts payable and accrued liabilities	(12,661)
Fund units	(11,287)
	–

Parkland issued 1,036 Fund units valued at $10.84 per unit. The units were valued using the 10 day weighted average closing price based on the 10 days before the announcement date of the acquisition.

On January 14, 2011 the Company sold property, plant and equipment and working capital to a former equity holder of Island Petroleum Ltd. for the $1,900 value assigned in the December 30, 2010 acquisition agreement.

18. SHELL ALLIANCE DISTRIBUTOR AGREEMENT SIGNED

On September 30, 2010 Parkland acquired from Shell Canada Products and Pennzoil-Quaker State Canada Inc. the right to sell lubricants and car care products branded with Shell or Pennzoil-Quaker State trademarks to a specific list of customer accounts. The allocation of the purchase price is as follows.

($000's)	
Estimated fair value of net assets acquired:	
Intangible asset – customer relationships	2,000
	2,000
Consideration:	
Cash paid to vendor	2,000
	2,000

19. ACQUISITION OF BLUEWAVE ENERGY

On January 31, 2010 Parkland acquired the fuel distribution business of Bluewave Energy Limited Partnership, a business specializing in home heating oil, commercial and industrial fuels, lubricants and related products. Bluewave Energy is based in Dartmouth Nova Scotia with commercial offices in Ontario, Alberta and British Columbia. The transaction was effective February 1, 2010 and 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:	
Intangible asset – customer relationships	83,700
Intangible asset – tradenames	1,400
Intangible asset – non compete agreement	600
Goodwill	62,907
Property, plant and equipment	25,753
Other long term receivable	448
Future tax asset	5,157
Working capital	52,029
	231,994
Consideration:	
Liabilities assumed	8,708
Cash paid to vendor	205,186
Class C Limited Partnership Units	15,562
Acquisition costs	2,538
	231,994
Non cash consideration:	
Liabilities assumed	(8,708)
Class C Limited Partnership units issued	(15,562)
	207,724

Parkland issued 1,240 Class C Limited Partnership units valued at $12.55 per unit. The units were valued using the 10 day weighted average closing price based on the 5 days before and 5 days after the announcement date of the acquisition. Goodwill and intangible assets have a tax basis of $123,378.

20. ACQUISITION OF EAGLE MARINE LTD.

On December 1, 2009 Parkland acquired the fuel marketing business of Eagle Marine 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:	
Intangible asset – customer relationships	297
Goodwill	400
Property, plant and equipment	2,100
Future income tax liability	(300)
Working capital	322
	2,819
Consideration:	
Cash paid to vendor	2,792
Acquisition costs	27
	2,819

21. ACQUISITION OF FUEL MARKETING BUSINESS OF ANMART FUELS

On July 8, 2009 Parkland acquired the fuel marketing business of Anmart Fuels. The transaction was effective May 31, 2009 and 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:	
Intangible asset – customer relationships	450
Intangible asset – non compete agreement	25
Goodwill	188
Property, plant and equipment	1,952
Working capital	2,197
	4,812
Consideration:	
Cash paid to vendor	4,700
Acquisition costs	112
	4,812

22. ACQUISITION OF FUEL DISTRIBUTION BUSINESS OF COLUMBIA FUELS LTD.

On June 15, 2009 Parkland acquired the fuel distribution business of Columbia Fuels Ltd., a company specializing in home heating oil, bulk petroleum and bio fuels based in Victoria, British Columbia. The transaction was effective June 1, 2009 and 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:	
Intangible asset – customer relationships	4,100
Intangible asset – non compete agreement	200
Goodwill	14,181
Property, plant and equipment	12,265
Future tax Liability	(1,100)
Working capital	7,613
	37,259
Consideration:	
Cash paid to vendor	21,721
Capital lease liabilities assumed	1,841
Loan paid out	10,347
Class C Limited Partnership Units	1,935
Acquisition costs	1,415
	37,259
Non cash consideration:	
Capital lease liabilities assumed	(1,841)
Class C Limited Partnership units issued	(1,935)
	33,483

Parkland issued 208 Class C Limited Partnership units valued at $9.30 per unit. The units were valued using the 10 day weighted average closing price based on the 5 days before and 5 days after the announcement date of the acquisition. Goodwill and Intangible Assets have a tax basis of $4,814.

23. ACQUISITION OF IMPERIAL OIL CUSTOMER VOLUME

On January 15, 2009 Parkland acquired the fuel supply and marketing business for 40 stations from Imperial Oil Limited. The transaction was effective October 15, 2008 and 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:	
Intangible assets	7,200
	7,200
Consideration:	
Cash paid to vendor	7,200
	7,200

24. INCOME TAXES

Immediately prior to giving effect to the Conversion on December 31, 2010, the Fund itself was not subject to income tax provided it distributed all of its taxable income to unitholders. For taxation purposes the Fund was considered a specified investment flow-through ("SIFT") entity and was to become subject to tax commencing January 1, 2011. For accounting purposes, the Fund computed future income tax based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. Realization of future income tax assets is dependent on generating sufficient taxable income during the period in which the temporary differences are deductible. Although realization is not assured, management believes it is more likely than not that all future income tax assets will be realized based on reversals of temporary timing differences, projections of operating results and tax planning strategies available to Parkland Fuel Corporation and its subsidiaries. Effective December 31, 2010, after giving effect to the Conversion, Parkland became subject to tax on taxable income earned from that date forward.

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:

	Year Ended			
($000's)	December 31, 2010	%	December 31, 2009	%
Provision for income taxes at statutory rates	4,836	29.67	14,084	29.67
Add (deduct) the tax effect of :				
Income earned in limited partnership	(19,415)	(119.11)	(18,479)	(38.93)
Effect of taxation of Trusts in 2011	-	-	(730)	(1.53)
Intangible assets recorded with carrying value in excess of tax	(3,694)	(22.66)	1,684	3.53
Rate differential and other items	4,379	26.86	2,306	4.86
	(13,894)	(85.24)	(1,135)	(2.40)

The future income tax assets and liabilities are composed of:

($000's)	December 31, 2010	December 31, 2009
Future income tax assets		
Capital assets tax values in excess of carrying values	3,766	1,988
Refinery remediation	1,728	1,632
Capital assets carrying value less than tax values on purchase of Bluewave	5,157	–
	10,651	3,620
Future income tax liabilities		
Intangible assets carrying value less than tax value	–	1,686
Capital assets carrying value in excess of tax values	–	1,370
Effect of taxation of Trusts in 2011	–	7,078
Effect of fuel inventory market valuation adjustment	–	1,886
	–	12,020

25. COMMITMENTS

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

($000's)	
2011	7,088
2012	6,089
2013	5,358
2014	3,952
2015	3,566
Thereafter	15,615

The Corporation has purchase commitments under its fuel supply contracts that require the purchase of approximately 2 billion litres of fuel products at variable costs over the next year. The Corporation also has purchase commitments that require the purchase of $1,000 of ammonia in the next year.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Values

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and distributions declared and payable are equal to their carrying values due to their short term maturities. The fair value and carrying value of the extendible facility is equal as the interest rate fluctuates with the prime lending rate. The fair values in the following table are estimated using discounted cash flow analysis based upon incremental borrowing rates for similar borrowing arrangements.The carrying values and fair values of the remaining financial instruments are as follows:

($000's)	December 31, 2010 Carrying Value	December 31, 2010 Fair Value	December 31, 2009 Carrying Value	December 31, 2009 Fair Value
Bank loans and Mortgage Payable	299	300	389	390
Capital lease obligations	5,052	5,679	3,076	3,880
Other long-term liabilities	3,562	3,570	-	-
Other long-term assets	3,872	3,319	2,927	2,977
Convertible debentures	128,962	136,000	87,827	92,218

Parkland has evaluated the financial instruments' fair values in accordance with CICA Handbook sections 3855 and 3862. Parkland has concluded that cash and cash equivalents are level 2 as defined in Handbook section 3862. Parkland has concluded that accounts receivable, accounts payable and accrued liabilities and distributions declared and payable are level 3 as defined in Handbook section 3862.

Fair Value Measurement Using Level 3 Inputs

($000's)	Accounts Receivable	Accounts Payable	Distributions Declared and Payable
Balance as at December 31, 2009	114,763	106,047	5,205
Bluewave acquisition	82,961	39,639	-
Island Petroleum acquisition	6,457	3,715	-
Deferred Payment on Island Petroleum acquisition included in accrued liabilities	-	12,661	-
Operating activity during the period	80,289	6,716	417
Balance as at December 31, 2010	284,470	168,778	5,622

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

Aging analysis

December 31, 2010

($000's)	Current or within terms	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
Accounts Receivable	252,466	8,045	4,250	19,709	284,470
Accounts Payable	160,605	3,000	2,573	2,600	168,778

December 31, 2009

($000's)	Current or within terms	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
Accounts Receivable	103,323	3,143	1,313	6,984	114,763
Accounts Payable	105,541	216	32	258	106,047

Credit and Market Risk

A substantial portion of Parkland's accounts receivable balance is with customers in the oil and gas, mining and forestry industries and is subject to normal industry credit risks. The credit risk is minimized by Parkland's broad customer and geographic base. In light of the current market conditions, Parkland's credit department has been expanded and policies strengthened to control the credit granting process. The Corporation manages its exposure to credit risk through rigorous credit granting procedures, typically short payment terms and security interests where applicable. The Corporation attempts to closely monitor financial conditions of its customers and the industries in which they operate. Parkland performs ongoing credit evaluations of its customers and outstanding debts are regularly monitored. At December 31, 2010, the provision for impairment of credit losses was $8,253 (December 31, 2009 – $3,600).

Parkland is exposed to market risk from changes in the Canadian prime interest rate which can impact its borrowing costs. A 1% change to interest rates would have caused an increase or decrease to earnings of $3,210 (2009 – $500) for the year ended December 31, 2010.

The Corporation purchases certain products in US dollars and sells such products to its customers typically in Canadian dollars. As a result, fluctuations in the value of the Canadian dollar to the US dollar can result in foreign exchange gains and losses. At the end of 2010 Parkland had US dollar accounts payable totalling $US 1,100 and US dollar cash of $US 322 and as a result the Corporation would not be exposed to a significant foreign exchange loss.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulties in meeting its short term financial obligations. The Corporation's liquidities are provided mainly by cash flows from operating activities and borrowings available under its extendible credit facility. In managing liquidity risk, Parkland has access to various credit products at competitive rates. As at December 31, 2010, Parkland had available unused credit facilities in the amount of $40,400 (2009 – $166,900). The Corporation believes it has sufficient funding through the use of its facility to meet foreseeable borrowing requirements.

27. NET CHANGES IN NON-CASH WORKING CAPITAL

		Year ended
($000's)	December 31, 2010	December 31, 2009
Accounts receivable	(80,758)	11,213
Inventories	(391)	(14,150)
Prepaid expenses and other	(2,011)	(1,116)
Income taxes recoverable	(12)	(458)
Accounts payable and accrued liabilities	7,580	26,770
Income taxes payable	(5)	–
Deferred revenue	(671)	1,850
Total for operating activities	(76,268)	24,109
Distributions declared and payable	417	(90)
Total for financing activities	417	(90)
Other cash flow information		
Cash taxes paid	–	–
Cash interest paid	25,145	5,119

28. SEGMENTED INFORMATION

Parkland's operations have been predominantly in fuel marketing and convenience store sales. With acquisitions in the past three years Parkland has expanded it's sales of propane, fertilizer, lubricants, home heating oil, other agricultural inputs and industrial products and services.

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 Corporation owned and operated convenience stores that are integrated into fuel marketing sites and bear common operating costs. Commercial includes sales of fertilizer, lubes, other agricultural inputs and industrial products and services.

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.

Year ended December 31,

	Fuel Marketing							
($000's)	Gas and Diesel	Heating Oil	Propane	Fuel Marketing Total	Store	Commercial	Other	Total
2010								
Net sales and operating revenue	2,484,534	144,574	64,212	2,693,320	24,300	156,100	39,700	2,913,420
Cost of sales	2,292,953	113,945	44,211	2,451,109	18,100	105,800	–	2,575,009
Gross profit	191,581	30,629	20,001	242,211	6,200	50,300	39,700	338,411
2009								
Net sales and operating revenue	1,774,569	15,200	63,000	1,852,769	48,693	93,154	25,400	2,020,016
Cost of sales	1,619,091	10,900	40,400	1,670,391	36,042	64,458	–	1,770,891
Gross profit	155,478	4,300	22,600	182,378	12,651	28,696	25,400	249,125

29. RELATED PARTY TRANSACTIONS

Parkland receives legal services from Bennett Jones LLP where a director of the Corporation is a partner. The fees paid during 2010 amounted to $1,820 (2009 – $1,100) including $514 (2009 – $300) in amounts payable at year end. The increase in fees paid includes amounts for acquisitions and preparation for trust conversion.

These transactions are 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.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the presentation adopted in the current period.

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Volume (millions of litres)				
Retail fuels				
Sales to dealer	232	223	908	897
Sales to consumer	143	137	562	545
Retail fuels sub-total	375	360	1,470	1,442
Commercial fuels				
Gasoline and diesel	340	132	1,158	488
Heating oil	69	12	180	17
Propane	40	41	120	135
Commercial fuels sub-total	449	185	1,458	640
Supply & Wholesale	165	230	682	817
Intersegment sales	(9)	(47)	(110)	(157)
Total fuel volume	980	728	3,500	2,742
Net sales and operating revenue (millions of Canadian dollars)				
Retail fuels				
Sales to dealer	185.8	168.0	697.1	640.3
Sales to consumer	117.8	109.3	449.7	415.3
Retail fuels sub-total	303.6	277.3	1,146.8	1,055.6
Commercial fuels				
Gasoline and diesel	258.7	102.7	884.8	352.8
Heating oil	59.4	11.7	144.6	15.2
Propane	20.6	20.6	64.2	63.0
Commercial fuels sub-total	338.7	135.0	1,093.6	431.0
Supply & Wholesale	129.0	127.6	534.7	476.7
Fuel sales	771.3	539.9	2,775.1	1,963.3
Convenience store merchandise sales	5.2	8.6	24.3	48.7
Commercial non-fuel sales	51.3	22.1	156.1	93.2
Other revenue(1)	9.6	6.6	39.7	25.4
Total gross sales and operating revenue	837.4	577.2	2,995.2	2,130.6
Intersegment sales	(6.6)	(34.8)	(81.8)	(110.6)
Total net sales and operating revenue	830.8	542.4	2,913.4	2,020.0

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Gross profit	101.5	56.5	338.4	249.1
Less: Convenience store merchandise gross profit	1.3	2.2	6.2	12.7
Commercial non-fuel sales gross profit	18.6	8.3	50.3	28.7
Other revenue gross profit(1)	9.6	6.6	39.7	25.4
Fuel gross profit	72.0	39.4	242.2	182.3
Cents per litre	7.34	5.41	6.92	6.66
Fuel gross profit (millions of Canadian dollars)				
Retail fuels				
Sales to dealer	10.9	10.0	40.7	39.0
Sales to consumer	13.3	14.2	57.8	62.2
Retail fuels sub-total	24.2	24.2	98.5	101.2
Commercial fuels				
Gasoline and diesel	22.1	6.6	71.8	22.4
Heating oil	11.9	3.3	30.6	4.3
Propane	6.8	6.7	20.0	22.6
Commercial fuels sub-total	40.8	16.6	122.4	49.3
Supply & Wholesale(2)	6.0	(2.6)	18.8	23.9
Fuel inventory market valuation adjustment	1.0	1.2	2.5	7.9
Fuel gross profit	72.0	39.4	242.2	182.3

(1) This category includes variable rents, delivery charges to customers, lottery, vendor rebates and other.

(2) Included in this category is Parkland's share of refinery margin and modest profits from wholesale sales.

Parkland Fuel Corporation Head Office

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Annual and Special Meeting

Thursday, May 12, 2011
9:00 a.m. (Mountain Time)
Capri Hotel & Conference Centre
Tuscany Room
3310 – 50th Avenue
Red Deer, Alberta T4N 3X9

Banker

HSBC Bank Canada
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Calgary, Alberta T2P 5L3

Legal Counsel

Bennett Jones LLP
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Stock Exchange Listing

Parkland Fuel Corporation common shares and debentures are listed on the Toronto Stock Exchange under the following symbols:
Common Shares: PKI
Debenture Series 1: PKI.DB
Debenture Series 2: PKI.DB.A

Registrar and Transfer Agent

Valiant Trust Company
310, 606 – 4th Street SW
Calgary, Alberta T2P 1T1

Directors

John F. Bechtold
Robert G. Brawn
Michael W. Chorlton
Jim Dinning
Alain Ferland
Jim Pantelidis
Ron Rogers
David A. Spencer

Officers

Mike Chorlton
Chief Executive Officer

Bob Espey
President and Chief Operating Officer

Ken Grondin
Senior Vice President and
Chief Financial Officer

Bob Fink
General Counsel and Corporate Secretary

Andrew Cruickshank
Vice President, Finance

Bob Espey will be appointed to Chief Executive Officer of Parkland Fuel Corporation upon the retirement of Mike Chorlton as Chief Executive Officer

Wholly Owned Subsidiaries of Parkland Fuel Corporation

Parkland Industries Ltd.
1472490 Alberta Ltd.
United Petroleum Products Inc.
Columbia Fuels Ltd.
Parkland Refining Ltd.
Neufeld Petroleum & Propane Ltd.
Bluewave Energy Ltd.

Annual Report Design

TMX Equicom

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FUEL CORPORATION

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