



Q3 2018



Report to shareholders

Management's Discussion and Analysis

Q3 2018

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Basis of presentation

This Management's Discussion and Analysis ("MD&A") for Parkland Fuel Corporation ("Parkland", "we", "our" or "us") dated November 1, 2018 should be read in conjunction with our September 30, 2018 unaudited interim condensed consolidated financial statements (the "Interim Condensed Consolidated Financial Statements"), our audited consolidated financial statements for the year ended December 31, 2017 (the "Annual Consolidated Financial Statements"), our 2017 annual MD&A (the "Annual MD&A"), and our annual information form for the fiscal year ended December 31, 2017 dated March 9, 2018 (The "Annual Information Form"). Information contained within the Annual MD&A is not discussed in this MD&A if it remains substantially unchanged.

Unless otherwise noted, all financial information is prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting within the framework of International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), using the accounting policies described in Note 2 of the Annual Consolidated Financial Statements and in Note 2 of the Interim Condensed Consolidated Financial Statements. The MD&A is presented in millions of Canadian dollars unless otherwise noted. Additional information about Parkland including quarterly and annual reports and the Annual Information Form is available online at www.sedar.com and Parkland's website, www.parkland.ca.

Non-GAAP financial measures and key performance indicators

Parkland has identified several key operating performance measures that management believes provide meaningful information in assessing Parkland's underlying performance. Readers are cautioned that these measures may not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Section 12 of this MD&A for a list of defined non-GAAP financial measures and key performance indicators ("KPIs").

Adjusted EBITDA and adjusted gross profit

Adjusted EBITDA and adjusted gross profit, including fuel and petroleum product adjusted gross profit, are measures of segment profit as reported in Note 14 of the Interim Condensed Consolidated Financial Statements and Note 24 of the Annual Consolidated Financial Statements. Refer to Section 12 of this MD&A for more information on these measures of segment profit.

Risks and forward-looking information

Parkland's financial and operational performance is potentially affected by a number of factors including, but not limited to, the factors described within the Forward-Looking Information section and Risk Factors section of this MD&A and the Annual Information Form. The information within these sections of this MD&A is based on Parkland's current expectations, estimates, projections and assumptions that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking information contained herein is subject to a number of risks and uncertainties beyond Parkland's control including, without limitation, changes in market, competition, governmental or regulatory developments, and general economic conditions and other factors under Section 10 of this MD&A and the Risk Factors section of the Annual Information Form. Readers are cautioned that such forward-looking information contained in this MD&A should not be used for purposes other than for which it is disclosed herein and are cautioned not to place undue reliance on these forward-looking statements. Refer to Section 14 of this MD&A for further details.

1. PARKLAND OVERVIEW

Who we are

Parkland Fuel Corporation ("Parkland") is Canada's largest and one of North America's fastest growing independent suppliers and marketers of fuel and petroleum products and a leading convenience store operator. Parkland serves customers through three channels: Retail, Commercial and Wholesale. Parkland optimizes its fuel supply across these three channels by operating the Burnaby Refinery and leveraging a growing portfolio of supply relationships and storage infrastructure. Parkland provides trusted and locally relevant fuel brands and convenience store offerings, including under the On the Run / Marché Express banners, in the communities it serves.

Parkland creates value for shareholders by focusing on its proven strategy of growing organically, realizing a strong supply advantage, acquiring prudently and integrating successfully. At the core of our strategy are our people as well as our values of safety, integrity, community and respect, which are embraced across our organization.

Parkland is listed on the Toronto Stock Exchange and trades under the symbol PKI. We operate through four operating segments: Retail, Commercial, Supply, and Parkland USA.

Our mission

Great people working together to be the partner of choice for our customers and suppliers.

Our four strategic imperatives

Parkland is committed to delivering competitive and sustainable returns to shareholders by being the partner of choice for our suppliers and our customers. Parkland's strategy consists of the following four strategic imperatives:

1. Grow organically

Parkland drives organic growth by innovatively pursuing opportunities to increase gross profit, selling great products under highly valued brands, while delivering great customer experiences, building loyalty, expanding the reach of our private label brands, and continuously increasing efficiencies. Parkland effectively deploys growth capital, operates safely and efficiently, and is a responsible steward of the environment. We believe these activities enable us to grow organically in all fuel marketing channels and convenience stores. Our annual Adjusted EBITDA strategic organic growth target is 3-5%.

2. Strong supply advantage

Parkland delivers a supply advantage by safely and reliably operating the Burnaby Refinery, leveraging market inefficiencies and being a partner of choice for refiners. We work hard to efficiently and consistently purchase large volumes of the full range of products produced by refineries in the geographic markets in which we operate. We sell our products through a variety of marketing channels, including Company retail gas stations, commercial diesel cardlocks, and commercial fuel, propane and lubricant delivery branches. We also use our Dealer retail network and wholesale activities to supplement our volumes and to optimize our supply activities.

3. Acquire prudently

Parkland is a disciplined acquirer that actively seeks complementary scale and scope opportunities. We build and leverage relationships with the objective of being the buyer of choice for vendors, and effectively integrate acquisitions to drive operational efficiency, create synergies and generate shareholder value. As the fuel distribution market remains significantly fragmented in North America, we are well-positioned to be a leader in its consolidation given potential supply and cost synergies as well as our experience across all fuel marketing channels. We believe that our combination of acquisitive and organic growth enables us to earn an attractive return for our shareholders.

4. Enable our teams to succeed

People are at the core of our strategic imperatives. We are committed to enabling our teams to succeed by recruiting great, high-calibre people, fostering engagement, building an industry-leading people culture and investing in technology. We champion the Parkland BOLD leadership model by empowering our employees to build, own, lead and deliver on their mandates. Our employees also embrace our Parkland values of safety, integrity, community and respect, which are at the core of everything we do. At Parkland, our employees are our most important resource and by investing in our people, we are directly contributing to the success of our organization.

2. FINANCIAL AND OPERATING SUMMARY

(\$ millions, unless otherwise noted)	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	2016	2018	2017	2016
Financial Summary						
Sales and operating revenue	3,849	2,600	1,638	10,974	6,191	4,526
Adjusted gross profit ⁽¹⁾	465	266	171	1,408	625	511
Adjusted EBITDA ⁽¹⁾	200	96	60	602	220	176
Net earnings	49	12	15	129	33	45
Per share – basic	0.37	0.10	0.15	0.98	0.30	0.47
Per share – diluted	0.36	0.10	0.15	0.95	0.29	0.46
Distributable cash flow ⁽²⁾	112	45	28	259	106	91
Per share ⁽²⁾⁽³⁾	0.84	0.35	0.29	1.96	0.95	0.96
Adjusted distributable cash flow ⁽²⁾	138	64	33	387	149	109
Per share ⁽²⁾⁽³⁾	1.04	0.50	0.35	2.93	1.33	1.15
Dividends	39	38	28	118	99	82
Dividends declared per share outstanding	0.2934	0.2886	0.2835	0.8770	0.8624	0.8415
Dividend payout ratio ⁽²⁾	35%	83%	99%	46%	92%	90%
Adjusted dividend payout ratio ⁽²⁾	28%	59%	83%	30%	66%	75%
Total assets	5,736	4,830	2,424	5,736	4,830	2,424
Total long-term liabilities	2,544	2,325	634	2,544	2,325	634
Shares outstanding (millions)	133	131	96	133	131	96
Weighted average number of common shares (millions)	133	131	96	132	113	95
Operating Summary						
Fuel and petroleum product volume (million litres) ⁽⁴⁾	4,211	3,557	2,659	12,624	8,901	7,632
Fuel and petroleum product adjusted gross profit ⁽¹⁾ (cpl) ⁽⁵⁾						
Retail	7.78	7.10	5.69	7.88	6.28	5.51
Commercial	6.86	6.71	8.64	8.27	9.48	10.94
Parkland USA	3.27	2.97	3.26	3.51	3.27	3.41
Operating costs ⁽⁶⁾ (cpl)	4.65	3.40	2.79	4.73	3.20	2.97
Marketing, general and administrative (cpl)	1.64	1.37	1.38	1.66	1.35	1.40

⁽¹⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽²⁾ Non-GAAP financial measure. See Section 12 of this MD&A.

⁽³⁾ Calculated using the weighted average number of common shares.

⁽⁴⁾ Fuel and petroleum product volume represents external volumes only. Intersegment volumes, including volumes produced by the Burnaby Refinery and transferred to the Retail and Commercial segments, are excluded from this reported volume.

⁽⁵⁾ "cpl" stands for cents-per-litre and is a key performance indicator. See Section 12 of this MD&A.

⁽⁶⁾ Operating costs (cpl) were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

3. PERFORMANCE OVERVIEW

Q3 2018 Highlights

Parkland achieved a record third quarter Adjusted EBITDA of \$200 million and record third quarter net earnings of \$49 million compared to Adjusted EBITDA of \$96 million and net earnings of \$12 million for the third quarter of 2017. This was mainly driven by contributions from the Chevron Acquisition⁽⁷⁾ and exceptional results in Supply aided by strong crack spreads and continued efforts in executing Parkland's supply strategy. Supply's Adjusted EBITDA increased \$96 million and Retail's Adjusted EBITDA increased \$13 million. Furthermore, Company C-Store SSSG⁽⁷⁾ was 6.7% across Canada. Integration activities are pacing well ahead of plan. Given the strong third quarter results, Parkland also achieved an adjusted dividend payout ratio of 28%, adjusted distributable cash flow of \$138 million, and a Total Funded Debt to Credit Facility EBITDA ratio of 2.62 as at September 30, 2018.

⁽⁷⁾ See pages 4 and 5 for definitions and discussion of the Chevron Acquisition and Company C-Store SSSG.

Grow

- Parkland achieved a record third quarter Adjusted EBITDA of \$200 million in 2018, more than double that of the \$96 million achieved for the same period in 2017. This growth was primarily driven by the Chevron Acquisition and exceptional results in Supply.
- We delivered 4,211 million litres of fuel and petroleum products in the third quarter of 2018, representing a 18% growth compared to 3,557 million litres for the same period in 2017. The additional volume was primarily driven by incremental business from the Chevron Acquisition.
- Sales and operating revenue increased from \$2,600 million in the third quarter of 2017 to \$3,849 million in the third quarter of 2018, driven by the Chevron Acquisition as well as higher fuel and commodity prices.
- Retail achieved Company C-Store same-store sales growth ("SSSG") of 6.7% across Canada in the third quarter of 2018. This marked the 11th consecutive quarter of positive Company C-Store SSSG at Parkland. The strong Company C-Store SSSG was driven by ongoing marketing programs including our new On the Run / Marché Express store concepts, the rollout of our proprietary private label brand, 59th Street Food Co., and new product launches that improved results and our sales mix. Parkland also saw growth in sustainable higher-margin categories such as beverages, snacks and confectionery.
- Parkland continued the successful rollout of the national refreshed On the Run / Marché Express store concepts, delivering to date 45 "Retrofit" sites, where existing locations are upgraded to the new store concept. In addition, Parkland delivered to date 9 "Flagship" sites, which are new full-offer facilities constructed at "New-To-Industry" or "Replacement" sites. The new On the Run / Marché Express store concepts elevate the customer experience and support the shift to higher margin categories while growing basket size and improving forecourt to backcourt conversion rates. Results are exceeding expectations as Parkland continues the ongoing rollout of this initiative.
- Parkland's new proprietary private label brand, 59th Street Food Co., which was developed in 2017 and successfully launched across numerous locations, continues to perform well. Our plans to launch new product categories to grow our C-store product mix for the remainder of 2018 are on track. With the success to date of our combined On the Run / Marché Express store concepts and private label brand strategy, we continue to accelerate our efforts to build and grow our Retail C-Store offering.

Supply

- The Burnaby Refinery achieved refinery utilization of 97.7% in the third quarter of 2018, marking the first successful full quarter of operations since the completion of the Burnaby Refinery's major maintenance event (the "Turnaround") in the first week of April 2018.
- Supply's Adjusted EBITDA for the three and nine months ended September 30, 2018 was \$121 million and \$362 million, respectively, compared to \$25 million and \$66 million for the comparable periods in 2017. These exceptional results were driven by contributions from the Chevron Acquisition, strong crack spreads, profitable supply sourcing initiatives, and improved supply economics, showcasing Parkland's continued success in executing its supply advantage strategy.
- Supply's external fuel and petroleum product volume grew 336 million litres for the third quarter of 2018 compared to the same period in 2017. This was primarily attributable to the additional volumes associated with the Burnaby Refinery and aviation fuel businesses as part of the Chevron Acquisition, as well as increases in crude, gasoline and diesel volumes driven by initiatives to drive volume growth and scale.

Acquire

- **Sol Transaction**
On October 9, 2018, Parkland entered into a business combination agreement with Sol Limited to acquire 75% of the outstanding shares of Sol Investments Limited ("Sol") for a preliminary purchase price of US\$1,209 million plus customary post-closing adjustments (the "Sol Transaction"). With operations in 23 countries, Sol is the largest independent fuel marketer in the Caribbean and is a privately held company owned by the Simpson Group through Sol Limited.

Sol has an integrated supply chain backed by an extensive distribution network, fortress assets, a premier brand portfolio and an exceptional team. The businesses and assets included in the Sol Transaction are predominantly located in the Caribbean and northern coast of South America and consist of: (i) Sol's retail businesses, which include 266 company-owned or company-leased sites and 260 dealer-owned and dealer-operated sites under brands such as Esso, Shell and Sol; (ii) Sol's supply and distribution businesses, which include owned or leased infrastructure assets including 32 import terminals, 7 pipelines, 3 marine berths and 10 charter ships; (iii) Sol's commercial and industrial businesses, which supply gasoline, diesel, fuel oil, propane and lubricants, and (iv) Sol's aviation businesses, which operate in 13 countries. The Sol Transaction, which extends Parkland's supply reach globally and builds on Parkland's supply advantage strategy, will provide Parkland a significant North American and Caribbean growth platform for future strategic initiatives, as well as access to key markets and comprehensive supply infrastructure in the Caribbean and northern coast of South America.

The purchase price will be settled on closing by a combination of cash and Parkland common shares that will result in Sol Limited owning 9.9% of the outstanding shares of Parkland immediately after closing, with the value of each common share set at C\$42.8023. The Sol Transaction includes a put right for Sol Limited to sell and a call right for Parkland to acquire the remaining outstanding shares of Sol at a proportionate purchase price based on Sol's trailing-twelve-month Adjusted EBITDA multiplied by 8.5 and other adjustments calculated pursuant to the agreement. Parkland will have the right to refuse the exercise by Sol Limited of its put right up to two occasions.

The Sol Transaction is subject to customary closing conditions, third-party consents and regulatory approvals. The closing of the Sol Transaction is currently targeted for late in the fourth quarter of 2018. The preliminary purchase price is subject to change and will be finalized upon completion of customary post-closing activities.

- **Rhinehart Acquisition**

On August 27, 2018, Parkland completed the acquisition of all outstanding shares of Rhinehart Oil Co., Inc. and its affiliates (collectively, "Rhinehart") for a preliminary purchase price of \$176 million (the "Rhinehart Acquisition"). Rhinehart markets and distributes fuels, lubricants and specialty products in Utah, Colorado, Wyoming and New Mexico. The businesses acquired include ten distribution facilities, nine retail sites and four cardlock facilities. The Rhinehart Acquisition, which is expected to double the size of Parkland USA, provides Parkland with talented staff and scalable infrastructure needed to establish a Regional Operations Centre ("ROC") in the Rocky Mountain tributary. This ROC will be the operating platform that drives organic growth and enables further acquisitions across the region that can leverage substantial existing capacity within current rail hubs, bulk storage terminals, and warehouses.

- **Ultramar and Chevron Acquisition integration and synergies update**

Parkland acquired the majority of the Canadian business and assets of CST Brands, Inc. on June 28, 2017 for a purchase price of \$978 million (the "Ultramar Acquisition") and all outstanding shares of Chevron Canada R & M ULC on October 1, 2017 for a purchase price of \$1,684 million (the "Chevron Acquisition") (collectively, the "Acquisitions"). Parkland's two largest acquisitions to date extended and enhanced Parkland's network coverage across Canada and added significant supply and marketing infrastructure through the addition of: (i) the Burnaby Refinery, a 55,000 bpd light/sweet crude refinery in Burnaby, British Columbia, (ii) 783 Company and Dealer retail fuel sites, (iii) 110 commercial cardlock sites and three marine fuelling stations, (iv) 30 commercial and home heating sites, and (iv) two terminals located in British Columbia, among other assets.

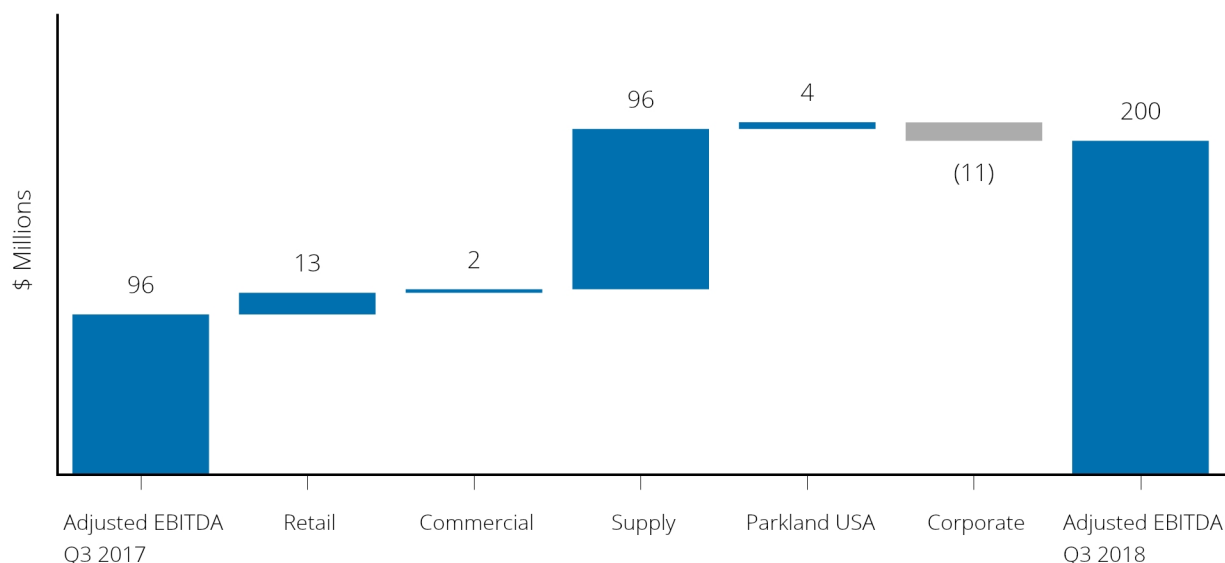
The Acquisitions have performed very well since their respective closing dates, as demonstrated by strong results in the first nine months of 2018 and the successful Burnaby Refinery Turnaround. Acquisition synergy targets continue to pace above the original internal plan, reinforcing Parkland's ability and commitment to acquire prudently and integrate successfully. As at September 30, 2018, Parkland completed initiatives that are expected to result in Annual Synergies⁽¹⁾ on the Acquisitions of approximately \$65 million for fiscal year 2018. Parkland expects that Annual Synergies on the Acquisitions will reach approximately \$180 million by the end of 2020. Parkland continues to implement its comprehensive plan to integrate the acquired businesses to drive synergies and future growth.

Parkland completed the conversion of Ultramar's enterprise resource planning ("ERP") system to Parkland's ERP system and exited the Ultramar Acquisition transitional services agreement ("TSA") in April 2018. Parkland also completed the conversion of the ERP system used in the Retail and Commercial segments of the Chevron Acquisition to Parkland's ERP system in the third quarter of 2018 and is progressing towards the exit of the Chevron Acquisition TSA.

⁽¹⁾ "Annual Synergies" is an annualized measure and is considered to be forward-looking information. See Sections 12 and 14 of this MD&A.

Q3 2018 vs. Q3 2017 overall performance

Adjusted EBITDA growth by segment



Adjusted EBITDA to net earnings

For the three months ended September 30 (\$ millions)	2018	2017	Change	%
Adjusted EBITDA ⁽¹⁾				
Retail	87	74	13	18 %
Commercial	10	8	2	25 %
Supply	121	25	96	384 %
Parkland USA	8	4	4	100 %
Corporate	(26)	(15)	(11)	73 %
	200	96	104	108 %
Less:				
Depreciation and amortization	77	47	30	64 %
Finance costs				
Interest on long-term debt	34	24	10	42 %
Change in fair value of Redemption Options	(8)	(19)	11	(58)%
Other finance costs ⁽²⁾	2	9	(7)	(78)%
	28	14	14	100 %
Gain on asset disposals	—	(2)	2	(100)%
Acquisition, integration and other costs	24	19	5	26 %
Loss on risk management and other derivatives - unrealized	16	1	15	1,500 %
(Gain) loss on foreign exchange - unrealized	(19)	1	(20)	(2,000)%
Adjusting items ⁽³⁾	9	—	9	100 %
Income tax expense	16	4	12	300 %
Net earnings	49	12	37	308 %

⁽¹⁾ Measure of segment profit. See Section 12 of this MD&A.

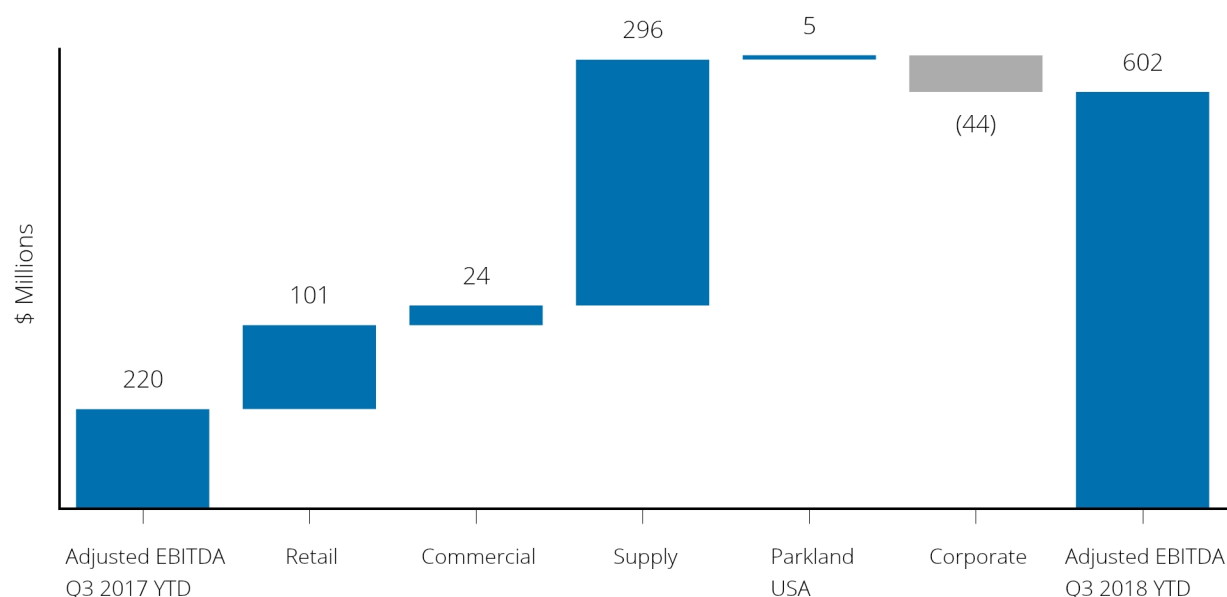
⁽²⁾ Includes amortization of deferred financing costs, accretion on asset retirement obligations, amortization of debt premium arising from Redemption Options and interest income. See Note 13 of the Interim Condensed Consolidated Financial Statements.

⁽³⁾ Adjusting items include a \$3 million unrealized loss on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and a \$6 million realized loss on foreign exchange relating to debt refinancing activities.

- Parkland achieved record third quarter Adjusted EBITDA of \$200 million, representing growth of \$104 million driven mainly by the Acquisitions and exceptional results in Supply. Retail grew \$13 million due to the impact of the Chevron Acquisition. Commercial grew \$2 million primarily due to the impact of the Chevron Acquisition. Supply grew \$96 million as a result of the Chevron Acquisition, strong crack spreads, and continued efforts in executing Parkland's supply strategy. This exceptional growth was partially offset by additional corporate costs to support the larger integrated business and execution of future growth strategies.
- Depreciation and amortization increased \$30 million, driven by higher property, plant and equipment and intangible asset balances from the Chevron Acquisition and the completion of the Burnaby Refinery Turnaround.
- Finance costs increased \$14 million in the third quarter of 2018 as expected, driven primarily by: (i) a \$10 million increase in interest on long-term debt largely due to the March 23, 2018 private placement of 6.00% US Senior Notes, (ii) an \$11 million decrease in the non-cash gain recognized on the change in fair value of the Redemption Options of the Senior Unsecured Notes. The \$8 million gain recognized during the three months ended September 30, 2018 was driven by observable decrease in credit adjusted spreads used to value the options, primarily as a result of Parkland's Senior Unsecured Notes trading more favourably during the third quarter of 2018, while the \$19 million gain that was recognized during the three months ended September 30, 2017 was driven by favourable credit spreads. The fair value of the Redemption Options embedded derivatives represents the non-cash value of the options that allow Parkland to early redeem the Senior Unsecured Notes at any time prior to their maturity and takes into account the redemption premium, credit spread, risk-free yield curve and other factors that are driven by changing debt market conditions.
- No material asset disposals took place during the third quarter of 2018.
- Acquisition, integration and other costs increased \$5 million primarily due to costs incurred to integrate the Chevron Acquisition and exit the Chevron Acquisition TSA. Furthermore, Parkland incurred acquisition costs for the Sol Transaction and the Rhinehart Acquisition.
- The \$19 million unrealized gain on foreign exchange was primarily driven by the translation impact of the 6.00% US Senior Notes and the USD-denominated Intermediation Facility (see Section 8 of this MD&A) in a stronger Canadian dollar environment during the quarter. The foreign currency risk on the 6.00% US Senior Notes is mitigated by a US Dollar Currency Swap, on which the unrealized loss is the main driver of the \$16 million unrealized loss on risk management and other derivatives.
- Income tax expense increased \$12 million for the third quarter of 2018 due to higher taxable earnings.
- As a result of the above main drivers, net earnings were \$49 million for the third quarter of 2018 compared to \$12 million in the third quarter of 2017.

Q3 2018 YTD Highlights

Adjusted EBITDA growth by segment



Adjusted EBITDA to net earnings

For the nine months ended September 30 (\$ millions)	2018	2017	Change	%
Adjusted EBITDA ⁽¹⁾				
Retail	238	137	101	74 %
Commercial	66	42	24	57 %
Supply	362	66	296	448 %
Parkland USA	17	12	5	42 %
Corporate	(81)	(37)	(44)	119 %
	602	220	382	174 %
Less:				
Depreciation and amortization	222	97	125	129 %
Finance costs				
Interest on long-term debt	94	52	42	81 %
Change in fair value of Redemption Options	3	(19)	22	(116)%
Other finance costs ⁽²⁾	12	9	3	33 %
	109	42	67	160 %
Loss (gain) on asset disposals	23	(1)	24	(2,400)%
Acquisition, integration and other costs	53	43	10	23 %
Loss (gain) on risk management and other derivatives - unrealized	21	(8)	29	(363)%
Loss on foreign exchange - unrealized	6	2	4	200 %
Adjusting items ⁽³⁾	4	—	4	100 %
Income tax expense	35	12	23	192 %
Net earnings	129	33	96	291 %

⁽¹⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽²⁾ Includes amortization of deferred financing costs, accretion on asset retirement obligations, amortization of debt premium arising from Redemption Options and interest income. See Note 13 of the Interim Condensed Consolidated Financial Statements.

⁽³⁾ Adjusting items include a \$2 million unrealized gain on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and a \$6 million realized loss on foreign exchange relating to debt refinancing activities.

- Parkland achieved record Q3 YTD Adjusted EBITDA of \$602 million in 2018 compared to \$220 million in 2017. Retail grew \$101 million primarily as a result of the Acquisitions and robust Company C-Store SSSG. Commercial grew \$24 million largely due to the Acquisitions. Supply grew \$296 million as a result of the Acquisitions as well as continued efforts in executing Parkland's supply advantage strategy. Parkland USA grew \$5 million primarily as a result of organic growth as well as incremental Adjusted EBITDA from the Rhinehart Acquisition, which closed on August 27, 2018. As expected, overall growth was partially offset by higher corporate costs to support the larger integrated business and execution of future growth strategies.
- Depreciation and amortization increased \$125 million, driven by higher property, plant and equipment and intangible asset balances from the Acquisitions and completion of the Burnaby Refinery Turnaround.
- Finance costs in the first nine months of 2018 increased \$67 million primarily due to: (i) a \$42 million increase in interest on long-term debt as a result of the March 23, 2018 private placement of 6.00% US Senior Notes and incremental borrowings to fund the Chevron Acquisition, as expected, and (ii) a \$22 million increase in non-cash loss recognized on the change in fair value of the Redemption Options of the Senior Unsecured Notes, which was comprised of a \$3 million non-cash loss in the third quarter of 2018 driven by higher market interest rates compared to a \$19 million non-cash gain in the same period in 2017.
- Loss on asset disposals was \$23 million primarily due to disposals related to the Burnaby Refinery Turnaround, which was completed in April 2018.
- Acquisition, integration and other costs in the first nine months of 2018 increased \$10 million primarily due to costs incurred to integrate the Acquisitions, including successfully exiting the Ultramar TSA, completing the Chevron Retail and Commercial ERP conversions, and effectively realizing synergies from Parkland's two largest acquisitions to date. Parkland also incurred acquisition costs related to the Sol Transaction and the Rhinehart Acquisition.
- The \$21 million unrealized loss from risk management and other derivatives for the first nine months of 2018 was primarily driven by widened differentials on propane commodity swap contracts taken by Parkland to mitigate commodity price risks on undelivered products, including products to be delivered in the winter. Commodity swap contracts form part of Parkland's risk management strategy and are used to lock in margins with customers on commodities to be delivered. Any unrealized gains or losses on commodity risk management contracts recognized under IFRS in the current period are expected to partially offset any losses or gains realized on physical products to be delivered in future periods.
- The \$6 million unrealized loss on foreign exchange was primarily driven by the translation impact of the USD-denominated Intermediation Facility in a weaker Canadian dollar environment experienced year-to-date.
- Income tax expense increased \$23 million due to higher taxable earnings.
- As a result of the above main drivers, net earnings for the first nine months of 2018 were \$129 million compared to \$33 million for the same period in 2017.

4. SEGMENT RESULTS

Refer to the Annual MD&A, Note 24 of the Annual Consolidated Financial Statements and Note 14 of the Interim Condensed Consolidated Financial Statements for a description of Parkland's segments.

Retail

Overview

Parkland Retail (formerly "Retail Fuels") supplies and supports a network of 1,855 retail gas stations in Canada operating under many key retail brands including Ultramar, Esso, Fas Gas Plus, Chevron, Pioneer and Race Trac. In addition, Parkland operates a leading convenience store brand, On the Run / Marché Express, as well as other convenience store brands that will be migrated over time to the On the Run / Marché Express brand if they meet the brand standards. Parkland Retail operates under two main models: i) Company owned, Company or retailer operated ("Company") sites and ii) Dealer or Parkland owned, dealer operated or dealer consigned ("Dealer") sites. Refer to the Annual MD&A for a detailed description of Parkland's multi-brand strategy and business models.

The Ultramar Acquisition, which closed on June 28, 2017, and the Chevron Acquisition, which closed on October 1, 2017, added 654 sites and 129 sites to our network, respectively. The acquired businesses have operating models or mixes of operating models that slightly differ from the pre-acquisition business (the "Base Business").

Ultramar Retail operating model

Ultramar Company sites include company-operated sites where Parkland earns higher margins but is fully responsible for managing the site, including hiring employees to operate the site. This is different from the Company sites of the Base Business, where sites are managed by independent retailers who earn a commission on fuel sales and where Parkland collects rent from the retailer based on fuel volumes and convenience store sales. As a result, the introduction of the Ultramar Company sites increases fuel margins and fuel and petroleum adjusted gross profit in Retail, while also increasing operating costs, marketing, general and administrative expenses and net unit operating costs ("NUOC") for the Retail segment. Parkland is currently in the process of migrating Ultramar Company sites to the company-owned, retailer-operated ("CORO") model consistent with the rest of Parkland Company sites.

Chevron Retail operating model

The sites acquired as part of the Chevron Acquisition are entirely Company sites under the CORO model while Parkland's Base Business contains a mix of mostly Dealer sites along with Company sites. Company sites earn higher fuel margins but run higher operating costs and marketing, general and administrative expenses compared to Dealer sites. As a result, the introduction of Chevron Retail increases fuel margins, fuel and petroleum adjusted gross profit, operating costs, marketing, general and administrative expenses and NUOC for the Retail segment.

Site count by brand and business model

The following table provides site count by brand and business model within the Retail segment:

	Ultramar	Esso	Fas Gas Plus	Chevron	Pioneer	Race Trac	Other	Total
Company sites	151	70	90	161	120	1	11	604
Dealer sites	490	520	100	18	37	65	21	1,251
Site count, as at September 30, 2018	641	590	190	179	157	66	32	1,855
Company sites	146	70	90	160	118	1	11	596
Dealer sites	493	518	104	18	36	65	18	1,252
Site count, as at December 31, 2017	639	588	194	178	154	66	29	1,848
Net change in site count	2	2	(4)	1	3	—	3	7

The change in site count during 2018 is attributable to network plan optimization and routine site count fluctuations from new dealers, conversions, sold sites, and closed or de-branded sites.

Retail segment performance highlights

Retail Adjusted EBITDA grew \$13 million to \$87 million for the third quarter of 2018 and grew \$101 million to \$238 million for the first nine months of 2018 compared to the respective periods in the prior year primarily due to the Acquisitions. Furthermore, Parkland achieved its 11th consecutive quarter of positive Company C-Store SSSG, realizing overall Company C-Store SSSG of 6.7% for the three months ended September 30, 2018 and 6.3% for the first nine months of 2018. This exceptional growth was attributable to the successful implementation of the new On the Run / Marché Express Flagship and Retrofit store concepts, the successful rollout of Parkland's proprietary private label brand 59th Street Food Co., and continued backcourt convenience store optimization that resulted in higher forecourt to backcourt conversion rates.

(\$ millions, unless otherwise noted)	Three months ended September 30,				Nine months ended September 30,			
	2018	2017	Change	%	2018	2017	Change	%
Fuel and petroleum product volume ⁽¹⁾ (million litres)	1,852	1,667	185	11 %	5,163	3,478	1,685	48%
Sales and operating revenue	1,961	1,423	538	38 %	5,355	2,904	2,451	84%
Fuel and petroleum product adjusted gross profit ⁽²⁾	144	119	25	21 %	407	219	188	86%
Non-fuel adjusted gross profit ⁽²⁾	38	33	5	15 %	113	60	53	88%
Adjusted gross profit ⁽²⁾	182	152	30	20 %	520	279	241	86%
Operating costs ⁽⁸⁾	80	66	14	21 %	238	116	122	105%
Marketing, general and administrative	15	12	3	25 %	44	26	18	69%
Adjusted EBITDA ⁽²⁾	87	74	13	18 %	238	137	101	74%
KPIs:								
Fuel and petroleum product adjusted gross profit ⁽²⁾ (cpl)	7.78	7.10	0.68	10 %	7.88	6.28	1.60	25%
Operating costs ⁽⁸⁾ (cpl)	4.32	3.92	0.40	10 %	4.61	3.34	1.27	38%
Marketing, general and administrative (cpl)	0.81	0.75	0.06	8 %	0.85	0.75	0.10	13%
Adjusted EBITDA ⁽²⁾ (cpl)	4.70	4.42	0.28	6 %	4.61	3.92	0.69	18%
Volume same-store sales growth ("SSSG") ⁽⁵⁾⁽⁶⁾	(0.8)%	(0.6)%	(0.2p.p)		(0.6)%	(0.6)%	— p.p	
Company C-Store same-store sales growth ("SSSG") ⁽⁵⁾	6.7 %	4.1 %	2.6p.p		6.3 %	3.5 %	2.8p.p	
TTM net unit operating cost ("NUOC") ⁽⁵⁾ (cpl)	3.32	2.25	1.07	48 %				
Company sites:								
TTM volume ⁽⁴⁾⁽⁶⁾ (million litres)	2,976	2,040	936	46 %				
TTM weighted average number of active sites ⁽⁴⁾⁽⁷⁾	567	375	192	51 %				
TTM average volume per active site ⁽⁴⁾⁽⁶⁾ (million litres)	5.2	5.4	(0.2)	(4)%				
Dealer sites:								
TTM volume ⁽⁴⁾⁽⁶⁾ (million litres)	3,914	2,371	1,543	65 %				
TTM weighted average number of active sites ⁽⁴⁾⁽⁷⁾	1,257	859	398	46 %				
TTM average volume per active site ⁽⁴⁾⁽⁶⁾ (million litres)	3.1	2.8	0.3	11 %				

⁽¹⁾ Includes gasoline, diesel and propane volumes.

⁽²⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽³⁾ Non-GAAP financial measure. See Section 12 of this MD&A.

⁽⁴⁾ Amounts presented on a trailing-twelve-month ("TTM") basis.

⁽⁵⁾ See Section 12 of this MD&A for an explanation of this KPI. This includes results of sites acquired under the Ultramar Acquisition for both periods but excludes results of sites acquired under the Chevron Acquisition for both periods, as comparable information is not available.

⁽⁶⁾ Volume includes gasoline and diesel volumes, but excludes propane volumes sold at retail sites.

⁽⁷⁾ Calculated on a weighted average basis.

⁽⁸⁾ Operating costs and operating costs (cpl) were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q3 and Q3 YTD - 2018 vs. 2017

Fuel volumes increased 185 million litres for the third quarter of 2018 and 1,685 million litres for the first nine months of 2018 primarily due to the Acquisitions and positive volume SSSG at Company sites. Parkland's overall market share remained stable year-over-year.

Sales and operating revenue increased \$538 million for the third quarter of 2018 and \$2,451 million for the first nine months of 2018 primarily due to the Acquisitions and rising fuel and petroleum commodity prices.

Adjusted gross profit consists of: (i) fuel and petroleum product adjusted gross profit primarily from gasoline and diesel sales, and (ii) non-fuel adjusted gross profit primarily from convenience store merchandise sales, convenience store rents, car wash revenue, and other ancillary sales. Fuel and petroleum product adjusted gross profit increased \$25 million for the third quarter of 2018 and \$188 million for the first nine months of 2018 primarily due to the Acquisitions.

Non-fuel adjusted gross profit increased \$5 million for the third quarter and \$53 million for the first nine months of 2018 largely due to the contribution of the Acquisitions. Parkland saw strong Company C-store SSSG as a result of the successful implementation of the new On the Run / Marché Express store concepts, the rollout of our private label offering, and backcourt convenience store optimization programs that resulted in better forecourt to backcourt conversion rates.

Operating costs are expenses incurred primarily at Company sites, including retailer fuel commissions, supplies and costs associated with owning and maintaining the property, building and equipment such as rents, repairs and maintenance, environmental, utilities, insurance and property tax costs. Operating costs increased \$14 million for the third quarter of 2018 and \$122 million for the first nine months of 2018 mainly due to the Acquisitions. Parkland also experienced higher retail fuel commissions, partially due to the impact of minimum wage increases, and higher variable credit card transaction fees, driven by higher street pump prices.

Retail marketing, general and administrative expenses include marketing, real estate, finance, operations, credit, network development and infrastructure expenses. Marketing, general and administrative expenses increased \$3 million for the third quarter of 2018 and \$18 million for the first nine months of 2018, as expected, primarily due to the Acquisitions. Parkland also invested in the On the Run / Marché Express new store concepts, rollout of our private label offering, and ongoing merchandise marketing programs to drive future growth in volume and backcourt convenience store sales.

KPIs

Fuel and petroleum adjusted gross profit on a cpl basis increased 10% for the third quarter of 2018 and 25% for the first nine months of 2018 primarily due to the Acquisitions, which have slightly different operating models than the Base Business that earn higher adjusted gross profit as discussed in the "Ultramar Retail operating model" and "Chevron Retail operating model" sections above.

Operating costs on a cpl basis increased 10% for the third quarter of 2018 and 38% for the first nine months of 2018 primarily due to the Acquisitions, which have higher cost operating models, as discussed above. Parkland also experienced higher retail commissions and greater variable credit card transaction fees, driven by higher street pump prices.

Marketing, general and administrative expenses on a cpl basis increased 8% for the third quarter of 2018 and 13% for the first nine months of 2018 primarily due to the Acquisitions, which have slightly different operating models with higher marketing, general and administrative expenses, as described above. Parkland also incurred additional expenses related to the On the Run / Marché Express new store concepts, roll-out of the private label offering, and ongoing merchandise marketing programs.

For the purposes of this MD&A, Volume SSSG and Company C-Store SSSG include the results of the Ultramar Acquisition but exclude the results of the Chevron Acquisition, as comparative information is not available.

Volume SSSG was (0.8)% for the third quarter of 2018 compared to (0.6)% for the same period in 2017, and (0.6)% for the first nine months of 2018 compared to (0.6)% for the same period in 2017 due to positive volume SSSG for Company sites, offset by decreases in volume SSSG for Dealer sites. Despite a decrease in Volume SSSG, Parkland maintained consistent volume market share nationally.

Company C-Store SSSG improved to 6.7% for the third quarter of 2018, surpassing strong growth of 4.1% for the same period in 2017. Similarly, Company C-Store SSSG improved to 6.3% for the first nine months of 2018, surpassing strong growth of 3.5% for the same period in 2017. These increases, experienced primarily in eastern Canada, were attributable to ongoing marketing programs including the new On the Run / Marché Express store concepts, rollout of the proprietary private label brand 59th Street Food Co., and backcourt convenience store optimization programs that resulted in greater forecourt to backcourt conversion. Parkland saw strong performance in Company C-Store SSSG across all categories.

NUOC was higher by 48% in the trailing twelve months ended September 30, 2018 compared to the same period in 2017 primarily due to the Acquisitions, which have different operating models with higher NUOC, as described above.

TTM average volume per active site decreased 4% for Company sites and increased 11% for Dealer sites primarily due to the Ultramar Acquisition, which has lower volumes per Company site and higher volumes per Dealer site due to the nature and location of the sites acquired.

Commercial

Overview

Parkland Commercial (formerly "Commercial Fuels") delivers bulk fuel, bulk and cylinder exchange propane, heating oil, lubricants and other related products and services to commercial, industrial and residential customers in Canada through an extensive delivery network. Parkland Commercial uses a variety of regionally relevant trade names, service marks and trademarks in the businesses that are considered important and valuable in marketing its products. The family of brands in this segment includes Ultramar, Bluewave Energy, Pipeline Commercial, Chevron, Columbia Fuels, and Sparlings Propane. Parkland's Commercial customer base is diverse, supplying a broad cross-section of industries across Canada including oil and gas, construction, mining, forestry, fishing and transportation. Parkland Commercial also sells propane and heating oil to residential customers.

Parkland added 73 commercial cardlock sites and 30 commercial and home heating sites through the Ultramar Acquisition, which closed on June 28, 2017, as well as 37 commercial cardlock locations through the Chevron Acquisition, which closed on October 1, 2017. These acquired businesses have operating models or mixes of operating models that slightly differ from the Base Business.

Ultramar Commercial operating model

Ultramar Commercial includes a cardlock business with commercial truck fuelling stations located near highways as well as a commercial and home heat business that distributes heating oil and motor fuels to residential and commercial customers. Unlike Parkland's Base Business, Ultramar Commercial does not have significant propane, bulk fuel or lubricant operations, and does not operate a cylinder exchange program, which generally earn higher margins but carry higher operating costs. As a result, the introduction of Ultramar Commercial reduces fuel margins, fuel and petroleum adjusted gross profit, operating costs and marketing, general and administrative expenses on a cpl basis for Commercial.

Chevron Commercial operating model

Chevron's Commercial business includes a cardlock business with truck fuelling stations as well as a commercial business that serves large wholesale customers. As such, Chevron Commercial is a higher volume, lower margin business and unlike Parkland's Base Business, it does not serve residential customers or operate a cylinder exchange, which carry relatively higher operating costs. Moreover, it has lower overhead costs since it does not have branches or bulk storage facilities and uses third-party carriers instead of owned trucks to deliver fuel. As a result, the introduction of Chevron Commercial reduces fuel margins, fuel and petroleum adjusted gross profit, operating costs and marketing, general and administrative expenses on a cpl basis for the Commercial segment as a whole.

Seasonality

Generally, Commercial results fluctuate based on seasonality and experiences higher volumes and Adjusted EBITDA in the first and fourth quarters of the year as a result of higher demand for heating oil and propane in the winter, and lower volumes and Adjusted EBITDA in the second and third quarters of the year as a result of lower demand for heating oil and propane in the summer.

Commercial segment performance highlights

Adjusted EBITDA increased \$2 million for the third quarter of 2018 and \$24 million for the first nine months of 2018 primarily due to the Acquisitions and strong results in the first half of 2018 from propane organic growth and customer wins. This was partially offset by softer results in September from unfavourable road conditions in the prairies as well as warmer-than-expected weather conditions in eastern Canada, which experienced 8% less heating degree days and negatively impacted the residential home heating business.

(\$ millions, unless otherwise noted)	Three months ended September 30,				Nine months ended September 30,			
	2018	2017	Change	%	2018	2017	Change	%
Gas and diesel volume (million litres)	635	519	116	22 %	2,098	1,092	1,006	92 %
Propane volume (million litres)	65	67	(2)	(3)%	297	267	30	11 %
Fuel and petroleum product volume ⁽¹⁾ (million litres)	700	586	114	19 %	2,395	1,359	1,036	76 %
Sales and operating revenue	666	460	206	45 %	2,198	1,094	1,104	101 %
Fuel and petroleum product adjusted gross profit ⁽²⁾	48	39	9	23 %	198	129	69	53 %
Non-fuel adjusted gross profit ⁽²⁾	14	17	(3)	(18)%	42	44	(2)	(5)%
Adjusted gross profit ⁽²⁾	62	56	6	11 %	240	173	67	39 %
Operating costs ⁽⁵⁾	41	37	4	11 %	143	108	35	32 %
Marketing, general and administrative	11	11	—	— %	31	23	8	35 %
Adjusted EBITDA ⁽²⁾	10	8	2	25 %	66	42	24	57 %
KPIs:								
Fuel and petroleum product adjusted gross profit ⁽²⁾ (cpl)	6.86	6.71	0.15	2 %	8.27	9.48	(1.21)	(13)%
Operating costs ⁽⁵⁾ (cpl)	5.86	6.38	(0.52)	(8)%	5.97	7.94	(1.97)	(25)%
Marketing, general and administrative (cpl)	1.57	1.74	(0.17)	(10)%	1.29	1.66	(0.37)	(22)%
Adjusted EBITDA ⁽²⁾ (cpl)	1.43	1.48	(0.05)	(3)%	2.76	3.14	(0.38)	(12)%
TTM operating ratio ⁽³⁾⁽⁴⁾	71.5%	74.4%	(2.9p.p.)					

⁽¹⁾ Includes diesel, gasoline and propane volumes.

⁽²⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽³⁾ Non-GAAP financial measure. See Section 12 of this MD&A.

⁽⁴⁾ Amounts presented on a trailing-twelve-month ("TTM") basis.

⁽⁵⁾ Operating costs and operating costs (cpl) were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q3 and Q3 YTD - 2018 vs. 2017

Fuel volumes increased 114 million litres for the third quarter of 2018 and 1,036 million litres for the first nine months of 2018 primarily due to the Acquisitions, driven by 22% and 92% gas and diesel volume growth for the three and nine months ended September 30, 2018. Propane volumes decreased slightly for the third quarter of 2018 primarily due to unfavourable weather conditions in September 2018 and increased 11% for the first nine months of 2018 largely due to organic growth and customer wins in the first half of 2018.

Sales and operating revenue increased \$206 million for the third quarter of 2018 and \$1,104 million for the first nine months of 2018 primarily due to the Acquisitions and rising fuel and petroleum commodity prices.

Adjusted gross profit increased \$6 million for the third quarter of 2018 and \$67 million for the first nine months of 2018 primarily due to the Acquisitions and strong propane performance in the first half of 2018.

Operating costs include driver and administrative labour, fleet maintenance and operating costs, third-party delivery expenses, and costs associated with owning and maintaining land, buildings and equipment such as rent, repairs and maintenance, environmental, utilities, insurance and property tax costs. Operating costs increased \$4 million for the third quarter of 2018 and \$35 million for the first nine months of 2018 primarily due to the Acquisitions. Furthermore, Parkland experienced higher fuel delivery costs in the first half of 2018, driven by higher volumes.

Marketing, general and administrative expenses in the Commercial business are typically fixed in nature and do not vary significantly with volume. Activities in this category include sales, marketing, real estate, finance, operations, credit, network development and infrastructure. Marketing, general and administrative expenses remained consistent for the third quarter of 2018 as Parkland continues to maintain a strong emphasis on cost management as the Acquisitions are integrated, despite additional costs from the Chevron Acquisition. Marketing, general and administrative expenses increased \$8 million for the first nine months of 2018 primarily due to the Acquisitions.

KPIs

Fuel and petroleum product adjusted gross profit on a cpl basis increased 2% for the third quarter of 2018 due to stronger propane margins. Meanwhile, this metric decreased 13% for the first nine months of 2018 primarily due to the Acquisitions, which have a different business sales mix and margin structure as discussed in the "Ultramar Commercial operating model" and "Chevron Commercial operating model" sections above.

Operating costs on a cpl basis improved 8% for the third quarter of 2018 and 25% for the first nine months of 2018 primarily due to the Acquisitions, which have lower operating cost models, as discussed above.

Marketing, general and administrative expenses on a cpl basis improved 10% for the third quarter of 2018 and 22% for the first nine months of 2018 primarily due to the Acquisitions, which have lower cost models as explained above. Parkland continues to maintain effective cost management across the Commercial business as acquisitions are integrated.

The TTM operating ratio, which is the ratio of operating costs and marketing, general and administrative expenses to adjusted gross profit, improved from 74.4% to 71.5% primarily due to the impact of the different operating models of the Acquisitions and cost control initiatives.

Supply

Parkland's Supply segment optimizes fuel supply by operating the Burnaby Refinery, contracting and purchasing fuel from other refiners and suppliers, distributing through rail and highway carriers, storing fuel in owned and leased facilities, serving wholesale and reseller customers in North America, and producing and selling aviation fuel to airlines operating at the Vancouver International Airport. Supply serves internal Parkland operating segments as well as external customers and markets products through the Parkland, Les Pétroles Parkland, Elbow River Marketing and Chevron brands. Refer to the Annual MD&A for a detailed overview of Supply's sales categories and operations.

Supply segment performance highlights

Supply Adjusted EBITDA was \$121 million for the third quarter of 2018, which is more than quadruple that of the \$25 million achieved in the third quarter of 2017 and was \$362 million for the first nine months of 2018 compared to \$66 million for the first nine months of 2017. These exceptional results were due to the impact of the Acquisitions and continued efforts in executing Parkland's supply strategy, aided by strong crack spreads for both periods. Increase in Supply Adjusted EBITDA for the first nine months of 2018 was also attributable to a one-time benefit of approximately \$30 million Adjusted EBITDA generated from Supply improvement and optimization initiatives in the first quarter of 2018. The team is committed to driving ongoing improvements to our supply economics and optionality as part of our supply strategy while implementing cost control initiatives to reduce operating costs.

In the first week of April 2018, Parkland successfully completed the Burnaby Refinery Turnaround, which began in early February. During the first nine months of 2018, \$88 million of Turnaround costs were incurred, of which \$75 million was capitalized within maintenance capital expenditures and \$13 million was expensed within operating costs.

	Three months ended September 30,				Nine months ended September 30,			
(\$ millions, unless otherwise noted)	2018	2017	Change	%	2018	2017	Change	%
Fuel and petroleum product volume ⁽¹⁾ (million litres)	1,384	1,048	336	32%	4,326	3,351	975	29%
Sales and operating revenue	936	533	403	76%	2,727	1,668	1,059	63%
Fuel and petroleum product adjusted gross profit ⁽²⁾	192	40	152	380%	577	117	460	393%
Non-fuel adjusted gross profit ⁽²⁾	5	3	2	67%	15	8	7	88%
Adjusted gross profit ⁽²⁾	197	43	154	358%	592	125	467	374%
Operating costs	62	8	54	675%	182	29	153	528%
Marketing, general and administrative	14	10	4	40%	48	30	18	60%
Adjusted EBITDA ⁽²⁾	121	25	96	384%	362	66	296	448%
KPI:								
Refinery utilization	97.7%				74.1%			

⁽¹⁾ Includes external diesel, gasoline, propane, crude oil and other volumes. Intersegment volumes, including volumes produced by the refinery and transferred to the Retail and Commercial segments, are excluded from these reported volumes.

⁽²⁾ Measure of segment profit. See Section 12 of this MD&A.

Q3 and Q3 YTD - 2018 vs. 2017

Fuel volumes increased 336 million litres for the third quarter of 2018 and 975 million litres for the first nine months of 2018 primarily due to the Chevron Acquisition. Base Business crude, propane, gasoline and diesel volumes also increased for both periods, driven by strategic initiatives to drive volume growth and scale.

Sales and operating revenue increased \$403 million for the third quarter of 2018 and \$1,059 million for the first nine months of 2018 mainly due to the Chevron Acquisition and in part due to higher commodity prices and volume increases for crude, propane, gasoline and diesel propane sales.

Adjusted gross profit increased \$154 million for the third quarter of 2018 and \$467 million for the first nine months of 2018 due to the Chevron Acquisition, aided by strong crack spreads, as well as significant progress made in optimizing supply economics.

Operating costs increased \$54 million for the third quarter of 2018 and \$153 million for the first nine months of 2018 primarily due to the Chevron Acquisition, including Turnaround costs discussed above. Parkland continues to drive ongoing cost improvements in our storage and distribution capabilities as part of our supply advantage strategy.

Marketing, general and administrative expenses, which relate to employee and market development costs, increased \$4 million for the third quarter of 2018 and \$18 million for the first nine months of 2018 largely due to the Chevron Acquisition and in part due to higher employee costs to support business growth.

Refinery utilization is a key performance indicator that measures the throughput of the Burnaby Refinery, and is expressed as a percentage of the 55,000 bpd total nameplate capacity of the units at the Burnaby Refinery. Refinery utilization for the third quarter of 2018 was 97.7%, reflecting Parkland's commitment to safely and effectively operating the Burnaby Refinery.

Parkland USA

Overview

Parkland USA supports a network of gas stations and delivers bulk fuel, lubricants and other related products and services to customers throughout Colorado, Minnesota, Montana, New Mexico, North Dakota, South Dakota, Utah and Wyoming. Parkland USA is a platform for growth in the United States and provides Parkland export opportunities for products from western Canada. Brands in this segment include Farstad Oil, Superpumper, Harts, and Rhinehart Oil. The Rhinehart Acquisition, which closed on August 27, 2018, added ten distribution facilities, nine retail sites, and four cardlock facilities. Refer to the Annual MD&A for a detailed overview of Parkland USA's brands and operations.

Rhinehart operating model

Unlike Parkland USA's Base Business, Rhinehart does not have significant bulk fuel operations, which earn lower margins. In addition, Rhinehart's operating model focuses heavily on lubricants, which are not included in fuel and petroleum product volume. As a result, the introduction of the Rhinehart business increases overall non-fuel adjusted gross profit due to higher lubricant sales. It also increases fuel and petroleum adjusted gross profit, operating costs and marketing, general and administrative expenses on a cpl basis due to minimal bulk fuel operations.

Parkland USA segment performance highlights

Adjusted EBITDA increased \$4 million for the third quarter of 2018 and \$5 million for the first nine months of 2018 due to the Rhinehart Acquisition and Parkland's continued focus on its strategy to drive new business and maintain organic growth in the Base Business.

(\$ millions, unless otherwise noted)	Three months ended September 30,				Nine months ended September 30,			
	2018	2017	Change	%	2018	2017	Change	%
Retail volume (million litres)	40	37	3	8%	110	102	8	8%
Wholesale volume (million litres)	235	219	16	7%	630	611	19	3%
Fuel and petroleum product volume ⁽¹⁾ (million litres)	275	256	19	7%	740	713	27	4%
Sales and operating revenue	286	184	102	55%	694	525	169	32%
Fuel and petroleum product adjusted gross profit ⁽²⁾	9	7	2	29%	26	23	3	13%
Non-fuel adjusted gross profit ⁽²⁾	15	8	7	88%	32	25	7	28%
Adjusted gross profit ⁽²⁾	24	15	9	60%	58	48	10	21%
Operating costs ⁽⁵⁾	13	10	3	30%	34	31	3	10%
Marketing, general and administrative	3	1	2	200%	7	5	2	40%
Adjusted EBITDA ⁽²⁾	8	4	4	100%	17	12	5	42%
KPIs:								
Fuel and petroleum product adjusted gross profit ⁽²⁾ (cpl)	3.27	2.97	0.30	10%	3.51	3.27	0.24	7%
Operating costs ⁽⁵⁾ (cpl)	4.73	3.87	0.86	22%	4.59	4.30	0.29	7%
Marketing, general and administrative (cpl)	1.09	0.62	0.47	76%	0.95	0.77	0.18	23%
Adjusted EBITDA ⁽²⁾ (cpl)	2.91	1.68	1.23	73%	2.30	1.74	0.56	32%
TTM operating ratio ⁽³⁾⁽⁴⁾	72.0%	74.5% (2.5p.p.)						

⁽¹⁾ Includes diesel, gasoline and propane volumes.

⁽²⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽³⁾ Non-GAAP financial measure. See Section 12 of this MD&A.

⁽⁴⁾ Amounts presented on a trailing-twelve-month ("TTM") basis.

⁽⁵⁾ Operating costs and operating costs (cpl) were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q3 and Q3 YTD - 2018 vs. 2017

Fuel and petroleum product volumes increased 19 million for the third quarter of 2018 and 27 million for the first nine months of 2018 primarily due to the Rhinehart Acquisition. The increase in volumes, along with increased commodity and fuel prices, drove a \$102 million increase in sales and operating revenue for the third quarter of 2018 and a \$169 million increase for the first nine months of 2018.

Adjusted gross profit increased \$9 million for the third quarter of 2018 and \$10 million for the first nine months of 2018 primarily due to the Rhinehart Acquisition, strong lubricant margins, and benefits from Parkland USA's organic growth strategy.

Operating costs and marketing, general and administrative expenses increased \$3 million and \$2 million, respectively, for the third quarter of 2018 and \$3 million and \$2 million for the first nine months of 2018, respectively, primarily due to the Rhinehart Acquisition.

KPIs

Fuel and petroleum product adjusted gross profit on a cpl basis increased 10% for the third quarter of 2018 and 7% for the first nine months of 2018 primarily due to the Rhinehart Acquisition, which has a different business sales mix as discussed in the "Rhinehart operating model" section above. In addition, the Base Business saw stronger fuel margins.

Marketing, general and administrative expenses on a cpl basis increased 76% for the third quarter of 2018 and 23% for the first nine months of 2018 primarily due to the Rhinehart Acquisition, which has a higher cost operating model as discussed above.

The TTM operating ratio improved from 74.5% to 72.0%, reflecting our commitment to successfully implement cost control measures while driving business growth.

Corporate

The Corporate segment includes centralized administrative services and expenses incurred to support operations. Due to the nature of these activities, these costs are not specifically allocated to Parkland's operating segments. Parkland's objective is to manage corporate expenses tightly so that they increase at a slower pace than Parkland's adjusted gross profit.

Corporate segment performance highlights

(\$ millions, unless otherwise noted)	Three months ended September 30,				Nine months ended September 30,			
	2018	2017	Change	%	2018	2017	Change	%
Marketing, general and administrative	26	15	11	73%	79	37	42	114%
Adjusted EBITDA ⁽¹⁾	(26)	(15)	(11)	73%	(81)	(37)	(44)	119%
Acquisition, integration and other costs	24	19	5	26%	53	43	10	23%
KPI:								
Corporate marketing, general and administrative expenses as a % of Parkland's adjusted gross profit	5.6%	5.5%	0.1p.p.		5.6%	6.0%	(0.4p.p.)	

⁽¹⁾ Measure of segment profit. See Section 12 of this MD&A.

Q3 and Q3 YTD - 2018 vs. 2017

Compared to the equivalent periods in the prior year, marketing, general and administrative expenses increased \$11 million for the third quarter of 2018 and \$42 million for the first nine months of 2018 and corporate Adjusted EBITDA expense increased \$11 million for the third quarter of 2018 and \$44 million for the first nine months of 2018, as expected, primarily due to additional corporate costs to support the larger integrated business and execution of future growth strategies.

On a consolidated basis, corporate marketing, general and administrative expenses as a percentage of Parkland's adjusted gross profit remained relatively consistent in the third quarter of 2018. For the nine months ended September 30, 2018, this ratio improved from 6.0% to 5.6% due to Parkland's adjusted gross profit growth outpacing the increase in additional corporate costs to support the larger integrated business.

Acquisition, integration and other costs increased \$5 million in the third quarter of 2018 primarily due to costs incurred to integrate the Chevron Acquisition and exit the Chevron Acquisition TSA. Furthermore, Parkland incurred acquisition costs for the Sol Transaction and the Rhinehart Acquisition. Similarly, acquisition, integration and other costs increased \$10 million for the first nine months of 2018 primarily due to costs incurred to integrate the Acquisitions and exit their related TSAs.

Health and safety

Parkland is committed to ensuring a safe working environment that protects our employees, customers and the environment. We comply with all applicable federal, provincial and local health, safety and environmental requirements in the communities in which we operate. Parkland is committed to reducing injuries and incidents in our workplaces and at customer sites, actively involving our workers in enhancing, tracking and measuring our performance, and training our workers to ensure they have the knowledge and skills necessary to perform their work safely. Furthermore, Parkland employees have the right to refuse any work they consider to be unsafe.

The table below presents Parkland's consolidated lost time injury frequency ("LTIF") and total recordable injury frequency ("TRIF") calculated on a trailing-twelve-month basis, including the results of the Acquisitions since the date of their acquisition.

	September 30, 2018	September 30, 2017
TTM LTIF	0.28	0.29
TTM TRIF	1.54	2.86

5. QUARTERLY FINANCIAL DATA

(\$ millions, unless otherwise noted)	2018			2017			2016	
For the three months ended	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31
Financial Summary								
Sales and operating revenue	3,849	3,783	3,342	3,369	2,600	1,806	1,785	1,740
Adjusted gross profit ⁽¹⁾	465	513	430	469	266	168	191	197
Adjusted EBITDA ⁽¹⁾								
Retail	87	82	69	94	74	38	25	33
Commercial	10	18	38	28	8	5	29	16
Supply	121	170	71	93	25	18	23	34
Parkland USA	8	5	4	4	4	5	3	4
Corporate	(26)	(26)	(29)	(21)	(15)	(12)	(10)	(10)
Consolidated	200	249	153	198	96	54	70	77
Net earnings (loss)	49	60	20	49	12	(1)	22	3
Per share – basic	0.37	0.45	0.15	0.37	0.10	(0.01)	0.23	0.03
Per share – diluted	0.36	0.45	0.15	0.37	0.10	(0.01)	0.22	0.03
Distributable cash flow ⁽²⁾	112	118	29	45	45	23	38	29
Per share ⁽²⁾⁽³⁾	0.84	0.89	0.22	0.33	0.35	0.20	0.40	0.30
Adjusted distributable cash flow ⁽²⁾	138	139	110	86	64	39	46	43
Per share ⁽²⁾⁽³⁾	1.04	1.05	0.84	0.64	0.50	0.35	0.48	0.45
Dividends	39	41	38	39	38	33	28	28
Dividends declared per share outstanding	0.2934	0.2934	0.2902	0.2886	0.2886	0.2886	0.2852	0.2835
Dividend payout ratio ⁽²⁾	35%	35%	131%	89%	83%	146%	72%	94%
Adjusted dividend payout ratio ⁽²⁾	28%	29%	35%	46%	59%	84%	60%	64%
Total assets	5,736	5,592	5,492	5,412	4,830	4,281	2,469	2,562
Shares outstanding (million shares)	133	132	132	131	131	130	97	96
Weighted average number of common shares (million shares)	133	132	131	131	131	111	96	96
Operating Summary								
Fuel and petroleum product volume (million litres)	4,211	4,202	4,211	4,432	3,557	2,588	2,756	2,783
Fuel and petroleum product adjusted gross profit ⁽¹⁾								
Retail (cpl)	7.78	8.00	7.88	8.95	7.10	5.78	5.25	5.39
Commercial (cpl)	6.86	7.99	9.53	8.29	6.71	9.36	13.16	11.47
Parkland USA (cpl)	3.27	3.66	3.65	3.48	2.97	3.31	3.58	3.62
Operating costs ⁽⁴⁾ (cpl)	4.65	4.62	4.92	4.50	3.40	3.00	3.11	2.93
Marketing, general and administrative (cpl)	1.64	1.67	1.66	1.62	1.37	1.41	1.28	1.39

⁽¹⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽²⁾ Non-GAAP financial measure. See Section 12 of this MD&A.

⁽³⁾ Calculated using the weighted average number of common shares.

⁽⁴⁾ Operating costs (cpl) were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Over the last eight quarters, Parkland's quarterly results were primarily impacted by the Acquisitions. In particular:

- Sales and operating revenue increased significantly over the last five quarters due to the Ultramar Acquisition on June 28, 2017 and the Chevron Acquisition on October 1, 2017. Higher fuel and petroleum product volumes and commodity prices over time also contributed to the increase. Sales and operating revenue is generally sensitive to fluctuations in commodity prices and energy markets.
- Since the Chevron Acquisition in the fourth quarter of 2017, Supply Adjusted EBITDA was lower in the first quarter of 2018 due to the shut down of the Burnaby Refinery during the Turnaround. This was partially offset by an incremental one-time benefit of approximately \$30 million of Adjusted EBITDA in the first quarter of 2018 through a variety of supply improvement and optimization initiatives. Supply Adjusted EBITDA was lower in the third quarter of 2018 compared to the second quarter of 2018 due to lower crack spreads, which are inherently volatile, and which generated lower refining margins.
- Commercial Adjusted EBITDA are generally lower in the second and third quarters of the year compared to the first and fourth quarters of the year due to seasonality.
- Net earnings in 2018 were higher than in 2017 due to higher Adjusted EBITDA from the Chevron, Ultramar and Rhinehart Acquisitions, partially offset by increased depreciation and amortization, financing costs, and income tax expense, all largely attributable to the impact of these acquisitions.
- Total assets increased significantly in the last six quarters due to the debt and equity financing raised for the Ultramar Acquisition, Chevron Acquisition and Rhinehart Acquisition, which closed on June 28, 2017, October 1, 2017 and August 27, 2018, respectively.
- Over the last four quarters, there were significant changes to the fuel and petroleum adjusted gross profit for Retail and Commercial as well as operating costs and marketing, general and administrative expenses on a cpl basis, primarily due to the Acquisitions, which have different operating models and operating model mixes, as further described in Section 4 of this MD&A.
- Generally, operating costs on a cpl basis are driven by the Commercial segment and fluctuate with Commercial Adjusted EBITDA based on seasonality, with higher costs in the first and fourth quarters of the year due to higher demand for heating oil and propane in the winter.

6. DIVIDENDS, DISTRIBUTABLE CASH FLOW AND DIVIDEND PAYOUT RATIO

(\$ millions, unless otherwise noted)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Adjusted EBITDA ⁽¹⁾	200	96	602	220
Amounts to reconcile Adjusted EBITDA to net earnings ⁽²⁾	(151)	(84)	(473)	(187)
Net earnings	49	12	129	33
Amounts to reconcile net earnings to cash generated from operating activities ⁽³⁾	28	99	132	134
Cash generated from operating activities	77	111	261	167
Reverse: Change in other liabilities and other long-term assets	(13)	1	–	(1)
Exclude: Change in other liabilities - Intermediation Facility Derivatives	3	–	(2)	–
Reverse: Net change in non-cash working capital	72	(59)	133	(39)
	139	53	392	127
Include: Maintenance capital expenditures	(28)	(9)	(135)	(25)
Include: Proceeds on asset disposals	1	1	2	4
Distributable cash flow ⁽⁵⁾	112	45	259	106
Reverse: Acquisition, integration and other costs	24	19	53	43
Reverse: Turnaround maintenance capital expenditures	2	–	75	–
Adjusted distributable cash flow ⁽⁵⁾	138	64	387	149
Weighted average number of common shares	133	131	132	113
Distributable cash flow per share ⁽⁴⁾⁽⁵⁾	0.84	0.35	1.96	0.95
Reverse: Acquisition, integration and other costs	0.18	0.15	0.40	0.38
Reverse: Turnaround maintenance capital expenditures	0.02	–	0.57	–
Adjusted distributable cash flow per share ⁽⁴⁾⁽⁵⁾	1.04	0.50	2.93	1.33
Dividends	39	38	118	99
Dividend payout ratio ⁽⁵⁾	35 %	83 %	46 %	92 %
Reverse: Acquisition, integration and other costs	(6)%	(24)%	(8)%	(26)%
Reverse: Turnaround maintenance capital expenditures	(1)%	– %	(8)%	– %
Adjusted dividend payout ratio ⁽⁵⁾	28 %	59 %	30 %	66 %
Dividends paid to shareholders, net of dividend reinvestment plan	26	28	78	71

⁽¹⁾ Measure of segment profit. See Section 12 of this MD&A.

⁽²⁾ Refer to Section 12 of this MD&A for a detailed reconciliation from Adjusted EBITDA to net earnings.

⁽³⁾ Refer to the consolidated statements of cash flows in the Interim Condensed Consolidated Financial Statements for a detailed reconciliation.

⁽⁴⁾ Calculated using the weighted average number of common shares.

⁽⁵⁾ Non-GAAP financial measure. See Section 12 of this MD&A.

Dividends

Dividends paid to shareholders increased for the third quarter of 2018 primarily due to an increase in weighted average number of common shares outstanding from 131 million for the three months ended September 30, 2017 to 133 million for the same period in 2018. On a year-to-date basis, dividends paid to shareholders increased primarily due to the increase in weighted average number of common shares outstanding from 113 million shares for the nine months ended September 30, 2017 to 132 million shares for the same period in 2018. Furthermore, there was a \$0.02 increase in annual dividend to \$1.174 per share, effective June 22, 2018.

The dividend reinvestment plan participation rate as at the dividend record date of September 21, 2018 was 35.4% (September 22, 2017 - 30.5%).

Distributable cash flow, adjusted distributable cash flow, dividend payout ratio and adjusted dividend payout ratio

Q3 and Q3 YTD - 2018 vs. 2017

The dividend payout ratio improved by 48 percentage points to 35% for the third quarter of 2018 and by 46 percentage points to 46% for the first nine months of 2018 due to higher cash flow available for distribution in proportion to higher dividends declared. Distributable cash flow increased \$67 million for the third quarter of 2018 and \$153 million for the first nine months of 2018 primarily due to increases in Adjusted EBITDA of \$104 million and \$382 million respectively, partially offset by higher maintenance capital expenditures primarily related to the Burnaby Refinery, including the Burnaby Refinery Turnaround.

Excluding the impact of acquisition, integration and other costs and the maintenance capital expenditures related to the Burnaby Refinery Turnaround, adjusted distributable cash flow increased \$74 million for the third quarter of 2018 and \$238 million for the first nine months of 2018. The adjusted dividend payout ratio improved by 31 percentage points to 28% for the third quarter of 2018 and by 36 percentage points to 30% for the first nine months of 2018 primarily due to the increase in Adjusted EBITDA driven by the Acquisitions and exceptional results in the Supply segment.

7. LIQUIDITY

Cash flows

The following table presents summarized information from the consolidated statements of cash flows:

	Three months ended September 30,			Nine months ended September 30,		
(\$ millions)	2018	2017	2016	2018	2017	2016
Cash generated from operating activities	77	111	12	261	167	140
Cash used in investing activities	(231)	(643)	(58)	(359)	(2,768)	(128)
Net cash (used) generated before financing activities	(154)	(532)	(46)	(98)	(2,601)	12
Cash generated from (used in) financing activities	100	553	25	95	2,592	(18)
(Decrease) increase in net cash	(54)	21	(21)	(3)	(9)	(6)
Net foreign exchange difference	—	—	—	—	—	1
Net cash (indebtedness), beginning of period	74	(4)	38	23	26	22
Net cash, end of period	20	17	17	20	17	17

Operating activities

Cash flows from operating activities are used to fund maintenance capital expenditures, interest, income taxes and dividends. Excess cash flows from operating activities are also used to fund growth capital expenditures, acquisition of businesses, or debt repayment as appropriate. Parkland anticipates meeting payment obligations as they come due.

Q3 2018 vs. Q3 2017

Cash generated from operating activities was \$77 million for the third quarter of 2018 primarily due to Adjusted EBITDA of \$200 million. This was partially offset by: (i) net change in non-cash working capital outflow of \$72 million largely attributable to lower accounts payable, higher accounts receivable and higher inventories, (ii) \$28 million of finance costs primarily due to financing the Acquisitions, and (iii) \$24 million in acquisition, integration and other costs incurred primarily in connection with the Chevron Acquisition integration and Sol Transaction. In contrast, operating activities generated \$111 million of cash in the third quarter of 2017, primarily due to \$96 million of Adjusted EBITDA.

Q3 2018 YTD vs. Q3 2017 YTD

Cash generated from operating activities was \$261 million the first nine months of 2018 primarily due to Adjusted EBITDA of \$602 million. This was partially offset by: (i) net change in non-cash working capital outflow of \$133 million largely attributable to higher accounts receivable and inventories, (ii) \$109 million of finance costs largely due to financing the Acquisitions, and (iii) \$53 million in acquisition, integration and other costs incurred largely to integrate the Acquisitions. In contrast, operating activities generated \$167 million in the first nine months of 2017, primarily due to the Adjusted EBITDA of \$220 million, partially offset by \$43 million in acquisition, integration and other costs incurred primarily to close the Acquisitions.

Investing activities

Parkland's investing activities primarily consist of business acquisitions and additions to property, plant and equipment and intangible assets through maintenance and growth capital expenditures. Parkland will continue to acquire prudently as attractive investment opportunities arise. Moreover, investments in growth and maintenance capital expenditures are expected to support our ability to grow our existing businesses organically over the coming years.

Q3 2018 vs. Q3 2017

During the third quarter of 2018, investing activities used \$231 million of cash primarily due to \$176 million for the Rhinehart Acquisition and \$56 million capital expenditures paid largely for maintenance projects at the Burnaby Refinery as well as maintenance and growth capital projects in the Retail segment. In contrast, the \$643 million used in investing activities in 2017 primarily related to \$628 million for the Chevron Acquisition in anticipation of its close on October 1 as well as \$15 million of capital expenditures to support growth and operations.

Q3 2018 YTD vs. Q3 2017 YTD

During the nine months ended September 30, 2018, investing activities used \$359 million of cash primarily due to \$195 million of capital expenditures mainly for the Turnaround, other maintenance projects at the Burnaby Refinery, and Retail station construction, rebrands and refreshes. In addition, \$176 million was used for the Rhinehart Acquisition, and \$12 million was invested in other long-term assets and long-term receivables. This was partially offset by \$26 million received from the settlement of the working capital adjustment related to the Chevron Acquisition. In contrast, the \$2,768 million used in investing activities in 2017 was primarily attributable to \$1,752 million for the Chevron Acquisition and \$972 million for the Ultramar Acquisition.

Financing activities

Parkland has a disciplined approach to capital investment decisions that prioritizes the use of cash flow first to committed capital investment, and then to growth opportunities, while paying dividends to shareholders.

Although Parkland's cash flow typically has seasonal fluctuations, Parkland's Board of Directors currently intends to pay consistent regular monthly dividends throughout the year based on estimated annual cash flow. In their dividend review, the Board of Directors considers current performance, historical and future trends in the business, expected sustainability of those trends, and capital requirements to sustain performance. The declaration and payment of dividends is at the discretion of Parkland's Board of Directors.

Distributable cash is not assured and the actual amount received by shareholders depends on, among other things, Parkland's financial performance, debt covenants and obligations, working capital requirements, future capital requirements, and the deductibility of items for income tax purposes, all of which are susceptible to a number of risks.

Q3 2018 vs. Q3 2017

During the third quarter of 2018, financing activities generated \$100 million of cash, primarily attributable to net long-term debt proceeds of \$111 million, which includes the \$100 million proceeds from the Short-Term Facility established during the third quarter of 2018, and a \$15 million increase in the Intermediation Facility liability, partially offset by cash dividends paid of \$26 million. In contrast, during the third quarter of 2017, Parkland generated \$553 million of cash primarily through net long-term debt proceeds of \$581 million largely to fund the Chevron Acquisition closed on October 1, 2017, partially offset by cash dividends paid of \$28 million.

Cash dividends paid, net of the dividend reinvestment plan, decreased \$2 million to \$26 million compared to the same period in 2017 due to increases in the dividend reinvestment plan participation rate from 30.5% to 35.4%. During the third quarter of 2018, Parkland paid a monthly dividend of \$0.0978 per share (2017 – \$0.0962 per share).

Q3 2018 YTD vs. Q3 2017 YTD

During the nine months ended September 30, 2018, Parkland generated \$95 million of cash in financing activities consisting of \$931 million proceeds from long-term debt, which includes the \$655 million proceeds from the issuance of the 6.00% US Senior Notes and \$100 million proceeds from the Short-Term Facility established in 2018. In addition, there was a \$43 million increase in the Intermediation Facility liability. This was partially offset by \$801 million for the repayment of the Credit Facility, and \$78 million for payment of cash dividends. In contrast, during the nine months ended September 30, 2017, Parkland generated \$2,592 million of cash, primarily consisting of the Equity Offering of \$662 million, proceeds from cash held in escrow to close the Ultramar Acquisition of \$528 million, proceeds from the issuance of the 5.625% Senior Notes of \$500 million, and drawings on the Credit Facility.

Cash dividends paid, net of the dividend reinvestment plan, increased \$7 million to \$78 million due to increases in outstanding common shares and dividends paid per share. During the nine months ended September 30, 2018, Parkland paid a monthly dividend ranging from \$0.0962 per share to \$0.0978 per share (2017 – \$0.0945 per share to \$0.0962 per share).

Contractual commitments

Parkland has contracted obligations under various debt agreements, operating leases, capital leases, capital expenditures and other contractual commitments exceeding a five-year period. Parkland's commitments increased from \$4,262 million as at December 31, 2017 to \$4,649 million as at September 30, 2018. This increase is primarily attributable to an increase in long-term debt commitments related to the issuance of the 6.00% US Senior Notes. See Note 6 in the Interim Condensed Consolidated Financial Statements for details.

In addition, Parkland entered into various purchase agreements that require minimum amounts or quantities of fuel and petroleum products, which vary based on volumes and other factors, to be purchased over certain time periods. Parkland has generally exceeded such minimum requirements in the past and expects to continue doing so for the foreseeable future.

Acquisition commitments

Parkland has contractual commitments relating to the Sol Transaction as described in Section 3 of this MD&A and Note 15 of the Interim Condensed Consolidated Financial Statements. Parkland intends to fund the acquisition as follows:

Sol Transaction	
Targeted close	Fourth quarter of 2018
Estimated purchase price	US\$1.2 billion (approx. C\$1.6 billion) plus customary post-close adjustments
Estimated consideration	Combination of: (i) Cash (estimated to be approximately C\$1.1 billion) (ii) Parkland common shares that will result in Sol Limited owning 9.9% of the outstanding shares of Parkland immediately after closing, with the value of each common share set at C\$42.8023 (estimated to be approximately C\$0.5 billion or approximately 12 million shares)
Expected sources for \$1.1 billion cash consideration	Combination of: (i) Senior secured bank debt of C\$470 million (ii) Term loan of US\$250 million (approximately C\$325 million) (iii) Term facility of C\$300 million ⁽¹⁾ (iv) Remainder from other non-debt sources, as required

⁽¹⁾ Parkland expects to replace the term facility with alternative longer-term debt prior to the closing of the Sol Transaction.

To mitigate the impact of the purchase price denominated in US dollars, Parkland entered into a US dollar open dated forward contract with a financial institution on October 16, 2018 with a notional amount of \$515 million, a forward rate of 1.299, and a settlement expiry date of January 31, 2019 to hedge a portion of the purchase price against foreign currency risks. The estimates and expectations presented above will vary as a result of foreign exchange rates, number of shares outstanding on closing, and post close adjustments, and are subject to change.

8. CAPITAL RESOURCES

Available sources of liquidity

Parkland's sources of liquidity as at September 30, 2018 are cash and cash equivalents and available funds under its Credit Facility and Intermediation Facility. While it is typical for Parkland's cash flows to have seasonal fluctuations, such fluctuations do not materially impact Parkland's liquidity and management believes cash flow from operations will be adequate to fund maintenance capital, interest, income taxes and targeted dividends. Growth capital expenditures in the next twelve months will be funded by cash flows from operations, proceeds from debt and equity offerings, and available borrowing capacity under the Credit Facility. For additional information concerning Parkland's available sources of liquidity, see the Capital Resources section of the Annual MD&A. Any future acquisitions will be funded by cash flows from operations, the Credit Facility, and issuance of new debt or new shares. Any additional debt incurred will be serviced by the anticipated increases in cash flow and will only be borrowed within Parkland's debt covenant limits.

Parkland manages its capital structure and makes adjustments for 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, repay existing debt, adjust the Credit Facility, enter into an Intermediation Facility, or enter into other credit arrangements.

On October 6, 2017, Parkland entered into an International Swaps and Derivatives Association ("ISDA") intermediation agreement with a financial institution (the "Intermediation Facility") to fund a portion of the working capital requirements of the Burnaby Refinery. On January 31, 2018, the Intermediation Facility was amended to extend the expiry to December 31, 2019. The Intermediation Facility involves structured purchases and sales of crude oil, refined products and other hydrocarbons (collectively, "Hydrocarbons"). The amended Intermediation Facility has a funding limit of: (i) up to US\$125 million of accounts receivable balance and (ii) the cost of Hydrocarbon inventory volumes up to 2,740 Mbbls. The Intermediation Facility is secured by Hydrocarbons and accounts receivable balances funded under the Intermediation Facility on a first-lien basis.

On March 29, 2018, Parkland amended its revolving extendible credit facility (the "Credit Facility") to reduce the Canadian Syndicated Facility from \$1,000 million to \$500 million. The Credit Facility is extendible each year for a rolling four-year period at Parkland's option, subject to approval by its lenders. The Credit Facility consists of: (i) \$500 million for the Canadian Syndicated Facility and US\$50 million for the US Syndicated Facility, less the value of letters of credit issued, and (ii) letters of credit to a maximum of \$200 million and US\$25 million. On August 15, 2018, the Canadian Syndicated Facility was temporarily increased by \$100 million through establishing a non-revolving short-term debt facility (the "Short-Term Facility") maturing August 15, 2019.

(\$ millions)	September 30, 2018	December 31, 2017
Cash and cash equivalents	20	23
Unused credit facilities	306	202
	326	225

As at September 30, 2018, Parkland had a negative working capital balance of \$127 million (December 31, 2017 - negative working capital balance of \$107 million), which is an expected result of the Intermediation Facility balance of \$344 million recorded in other liabilities (December 31, 2017 - \$301 million). Parkland anticipates meeting its obligations as they become due through cash and cash equivalents, cash flows from operations, unused credit facilities or new facilities to the extent available. Parkland's current capital structure provides the flexibility to carry out plans for future growth, including business acquisitions and contingencies. Parkland will continue to evaluate opportunities to enhance its capital structure or reduce its debt or negative working capital through cash flows from operations or future financing activities.

Maintenance capital expenditures and growth capital expenditures

The following table provides a summary and reconciliation of maintenance and growth capital expenditures:

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Growth Capital Expenditures				
Retail	20	4	38	7
Commercial	4	1	9	6
Supply	1	1	1	7
Parkland USA	—	—	—	—
Corporate	4	—	4	—
Growth Capital Expenditures	29	6	52	20
Maintenance Capital Expenditures				
Retail	5	3	14	6
Commercial	5	2	11	8
Supply	16	1	106	2
Parkland USA	2	1	3	3
Corporate	—	2	1	6
Maintenance Capital Expenditures	28	9	135	25
Additions to property, plant and equipment and intangible assets	57	15	187	45

During the three and nine months ended September 30, 2018, Parkland's combined growth and maintenance capital expenditures increased \$42 million and \$142 million, respectively, compared to the same periods in 2017. The increase in growth capital expenditures is primarily due to Retail station rebrands and refreshes, including investments in the new On the Run / Marché Express store concepts. The increase in maintenance capital expenditures is primarily attributable to the Supply segment for Turnaround costs and other ongoing maintenance projects at the Burnaby Refinery. Other major capital expenditure activities in 2018 include equipment purchases to support the integration of the Acquisitions as well as fleet and equipment purchases to support new and existing customer contracts.

Committed capital expenditures

Contractual commitments for the acquisition of property, plant and equipment as at September 30, 2018 were \$58 million (December 31, 2017 - \$58 million). These contractual commitments relate primarily to ongoing maintenance projects at the Burnaby Refinery as well as projects to retrofit and rebrand the On the Run / Marché Express brand, expand facilities, increase fleet, and build new and upgrade existing retail service stations. We plan to fund these commitments using cash and cash equivalents, cash flows from operations, and available borrowing under the Credit Facility, as required.

Parkland believes that the current capital programs based on the present state of its assets, opportunities, the outlook for fuel supply, and demand and industry conditions are sufficient to maintain productive capacity in the medium term. Due to the risks inherent in the industry, particularly the reliance on external parties to supply fuel and propane, general economic conditions, and weather that affects customer demand, there can be no assurance that the capital programs will be sufficient to maintain or increase production levels or cash flows from operating activities.

Financial covenants and metrics

As at September 30, 2018, Parkland was in compliance with all debt covenants. Debt covenant ratios are tested on a trailing-twelve-month basis. The financial covenants of the Credit Facility are as follows:

Ratio	Covenant restriction	Management long-term target	Actual debt covenant ratios as at	
			September 30, 2018	December 31, 2017
1. Senior Funded Debt to Credit Facility EBITDA ratio	< 3.50 at Q1 and Q4 and first two full quarters following a material acquisition, and < 3.00 at Q2 and Q3	< 3.50 at Q1 and Q4 and first two full quarters following a material acquisition, and < 3.00 at Q2 and Q3	0.41	1.09
2. Total Funded Debt to Credit Facility EBITDA ratio	< 5.00 each quarter until and including Q1 2019, and < 4.50 each quarter from and after Q2 2019	2.00 - 3.50	2.62	2.62
3. Interest coverage ratio	> 3.00	> 3.00	5.91	7.65

The Senior Funded Debt and Total Funded Debt to Credit Facility EBITDA ratios are well below the covenant restrictions of 3.00 and 5.00, respectively. Refer to Section 12 of this MD&A for the calculation of Parkland's debt covenants.

9. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Parkland's significant accounting policies and significant accounting estimates, assumptions and judgments are contained in the Annual Consolidated Financial Statements. Refer to Note 2 of the Annual Consolidated Financial Statements and Notes 2 and 3 of the Interim Condensed Consolidated Financial Statements for the description of policies or references to notes where such policies are contained.

Recently adopted accounting pronouncements

IFRS 9 - Financial Instruments

On January 1, 2018, Parkland adopted IFRS 9 - Financial Instruments ("IFRS 9") using the modified retrospective approach. The cumulative effect of initially adopting IFRS 9 did not result in a material impact on prior period financial information. Comparative information is not restated and continues to be reported under the previous financial instrument standards in effect during those periods. See Note 3 of the Interim Condensed Consolidated Financial Statements for further information.

IFRS 15 - Revenue from Contracts with Customers

On January 1, 2018, Parkland adopted IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") using the modified retrospective method on contracts that were not completed as of January 1, 2017. The cumulative effect of initially adopting IFRS 15 did not result in a material impact on prior period financial information. Comparative information is not restated and continues to be reported under the previous revenue standards in effect during those periods. See Note 3 of the Interim Condensed Consolidated Financial Statements for further information.

Significant accounting estimates, assumptions and judgments

The preparation of Parkland's consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of revenue, expenses, assets, liabilities, accompanying disclosures and the disclosure of contingent liabilities. These estimates and judgments are subject to change based on experience and new information. Refer to "Significant accounting estimates, assumptions and judgments" in the Annual MD&A for further information on these significant accounting estimates, assumptions and judgments. Since the date of our Annual MD&A, there were no material changes to the significant accounting estimates, assumptions and judgments.

10. RISK FACTORS

Key business risks

The information presented in the "Risk Factors" section of the Annual MD&A and Annual Information Form has not changed materially since their date of publication, except for the following:

Certainty of closing the Sol Transaction

The Sol Transaction is subject to certain conditions that may be outside of Parkland's control, including obtaining various third-party consents and regulatory approvals, the outcome of any legal proceedings that may be instituted against the parties following the announcement of the Sol Transaction and transactions contemplated therein, and the possibility that the parties to the Sol Transaction may be adversely affected by other economic, business, and/or competitive factors that may, among other things, result in the Sol Transaction not occurring.

The Sol Transaction is subject to other commercial risks that it may not close on the terms negotiated or at all. If the Sol Transaction is not completed, Parkland will have incurred significant costs associated therewith.

Significant acquisition and related costs

Parkland expects to incur a number of costs associated with completing the Sol Transaction. The substantial majority of such costs will be non-recurring expenses resulting from the Sol Transaction and will consist of transaction costs related to the Sol Transaction, facilities and systems consolidation costs and employment-related costs.

Foreign currency risk

The purchase price of the Sol Transaction is denominated in US dollars and the financing of the Sol Transaction is denominated in Canadian dollars. Parkland is exposed to foreign currency risks on the portion of the purchase price that is not hedged by a US dollar forward contract. The Canadian dollar purchase price will increase if the Canadian dollar depreciates against the US dollar in foreign currency markets, and this may adversely affect Parkland's ability to achieve the anticipated benefits or financial projections related to the Sol Transaction. To reduce the exposure of this risk, Parkland has entered into a US dollar open dated forward contract on October 16, 2018 to hedge a portion of the purchase price against foreign currency risks.

There are also foreign currency risks related to the other currencies used by the various countries where the Sol assets are located, including foreign currencies of emerging markets. Parkland will be exposed to these additional foreign currency risks following the closing of the Sol Transaction.

Execution of the financing of the Sol Transaction

The commitment of the lenders to enter into the new credit facilities is subject to certain standard conditions. Obtaining the new credit facilities on terms less favourable to Parkland could adversely impact Parkland's financial condition and decrease the amount of cash available in the future.

Failure to realize the anticipated benefits of the Sol Transaction

Achieving the benefits of the Sol Transaction depends, in part, on successfully optimizing Sol's supply and distribution channels, attracting and retaining qualified employees, and the adoption of Parkland's KPI-driven culture in the cultural settings where Sol operates. These factors may adversely affect Parkland's ability to achieve the anticipated benefits of the Sol Transaction and financial projections related thereto.

Potential undisclosed liabilities associated with the Sol Transaction

Although Parkland conducted what it believed to be a prudent and thorough level of due diligence in connection with the Sol Transaction, an unavoidable level of risk remains regarding any unknown or undisclosed liabilities of, or issues concerning the Sol assets, including in respect of tax, litigation, environmental and other matters. The existence of undisclosed liabilities could have a material adverse effect on Parkland's business, financial condition and results of operations.

Increased indebtedness

In connection with the Sol Transaction, Parkland anticipates additional borrowings. Such borrowings will represent an increase in Parkland's consolidated indebtedness. Such additional indebtedness will increase Parkland's interest expense and debt service obligations and may have a negative effect on Parkland's results of operations. The increased indebtedness will also make Parkland's results more sensitive to increases in interest rates. There is no guarantee that Parkland will be able to obtain additional indebtedness or other financing on terms favourable to Parkland or at all in order to repay the principal on such indebtedness when it becomes due.

Parkland's degree of leverage could have other important consequences, including the following:

- it may limit Parkland's ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- it may limit Parkland's ability to declare dividends on its common shares;
- certain of Parkland's borrowings are at variable rates of interest and expose Parkland to the risk of increased interest rates;
- it may limit Parkland's ability to adjust to changing market conditions and place Parkland at a competitive disadvantage compared to its competitors that have less debt;
- Parkland may be vulnerable in a downturn in general economic conditions; and
- Parkland may be unable to make capital expenditures that are important to its growth and strategies.

Country risk

The businesses operated by Sol are subject to the risks normally associated with any conduct of business in emerging markets including political or social unrest, changes in laws and regulations, changes in the tax regimes, uncertainty regarding the enforceability of contractual, property, and other legal rights in local courts, unpredictable government actions, and delays in obtaining or the inability to obtain necessary governmental permits or the reimbursement of refundable tax from fiscal authorities. These risks may negatively impact operations and revenues.

The economic and political systems of certain jurisdictions in which Sol operates are less predictable than in countries such as Canada and the United States, resulting in an increased risk of sudden and unforeseen regulatory changes or governmental or administrative action which could have a material and adverse effect on Parkland's future cash flows, earnings, results of operations and/or financial condition.

Moreover, some of these jurisdictions present an increased risk of incidents of bribery, collusion, kickbacks, theft, improper commissions, facilitation payments, conflicts of interest and related party transactions, and may require additional compliance procedures with applicable anti-corruption legislation including the U.S. Foreign Corrupt Practices Act and the Canadian Corruption of Foreign Public Officials Act. Parkland's failure to identify, manage and mitigate instances of fraud, corruption, violations of its code of conduct, or applicable legislative and regulatory requirements increase the risk that Parkland may be implicated in such incidents.

Collectively, these risks could result in a disruption of Parkland's operations, increase costs to Parkland, and could have a material adverse effect on Parkland's business, financial condition, and results of operations.

Severe weather risk

The Sol assets are located in the Caribbean and are therefore subject to the risks associated with severe tropical storms, hurricanes, earthquakes and volcanic eruptions, which may cause downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Such weather conditions and natural disasters may negatively impact operations in the region and Parkland's ability to realize the anticipated growth opportunities and synergies with respect to the Sol Transaction.

Operating in new jurisdictions

The Sol assets operate in jurisdictions which are new to Parkland. As is the case with any new jurisdiction, Parkland must familiarize itself with the relevant legislation and regulations of the new jurisdiction including local labour laws and environmental laws. While Parkland will benefit from the experience and expertise of the Sol management and employees, acclimatizing to new jurisdictions may be an expensive and resource-intensive process.

A detailed discussion of additional risk factors relating to Parkland and its business is presented in the Annual Information Form, which is available on SEDAR.

Financial instruments and financial risks

Financial instruments recorded at fair value through profit or loss

Parkland's financial instruments recorded at fair value through profit or loss include commodities swaps, forwards and futures contracts, US dollar forward contracts, Intermediation Facility Derivatives, emission credits and allowances, and Redemption Options.

Risk management assets and liabilities include outstanding commodities swaps and forward contracts, futures contracts, foreign currency swaps, and foreign currency forward exchange contracts. Parkland periodically enters into derivative contracts that are believed to be economically effective at managing exposure to movements in commodity prices, foreign currency exchange rates and emission credits and allowances. While these derivative contracts form a component of Parkland's overall risk management program, they are not accounted for as hedges under IFRS. The Senior Unsecured Notes contain Redemption Options that allow Parkland to redeem the notes prior to maturity at a premium. The Redemption Options are accounted for as an embedded derivative financial instrument under IFRS. For more information on Parkland's financial instruments and related financial risk factors, see Note 7 of the Interim Condensed Consolidated Financial Statements, Note 13 of the Annual Consolidated Financial Statements and Section 10 of Parkland's Annual MD&A.

Fair value measurement hierarchy

The fair value hierarchy for Parkland's financial assets and liabilities measured at fair value is as follows (\$ millions):

	Fair value as at September 30, 2018			Total
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Risk management derivatives				
Commodities swaps, forwards and futures contracts	–	1	–	1
Other derivatives				
Emission credits and allowances	–	23	–	23
Risk management and other derivatives - assets	–	24	–	24
Risk management derivatives				
Commodities swaps, forwards and futures contracts	–	(23)	–	(23)
Other derivatives				
Emission credits and allowances	–	(1)	–	(1)
Risk management and other derivatives - liabilities	–	(24)	–	(24)
Other derivatives included in other long-term assets				
Redemption Options	–	26	–	26
Other derivatives included in other liabilities				
US Dollar Currency Swap	–	(6)	–	(6)
Intermediation Facility Derivatives	–	(7)	–	(7)
Other derivatives included in other liabilities	–	(13)	–	(13)

Impact on the consolidated balance sheets and consolidated statements of income

The Redemption Options are fair valued at the end of each reporting period and any change in fair value is recognized in the consolidated statements of income in finance costs. The fair value of the Redemption Options recorded in other long-term assets was \$26 million as at September 30, 2018 (December 31, 2017 – \$20 million). The change in fair value of the Redemption Options for the three and nine months ended September 30, 2018 consisted of a gain of \$8 million and a loss of \$3 million, respectively (2017 - gains of \$19 million and \$19 million).

Gains or losses relating to the Intermediation Facility Derivatives are recognized in the consolidated statements of income in cost of purchases. For the three and nine months ended September 30, 2018, realized losses of nil and \$29 million respectively (2017 - nil and nil) and an unrealized loss of \$3 million and an unrealized gain of \$2 million respectively (2017 - nil and nil) relating to the Intermediation Facility Derivatives were included within cost of purchases on the consolidated statements of income.

All other risk management and other derivatives are fair valued at the end of the reporting period and any change in fair value is recognized in the consolidated statements of income in loss (gain) on risk management and other derivatives. The fair values of the risk management and other derivatives - assets and liabilities as at September 30, 2018 were \$24 million and \$24 million respectively (December 31, 2017 - \$19 million and \$9 million). Risk management and other derivatives for the third quarter of 2018 and for the first nine months of 2018 yielded a combined realized and unrealized loss of \$32 million and \$28 million, respectively (2017 - loss of \$1 million and gain of \$5 million), and were driven by commodities swaps, the US Dollar Currency Swap, and forward contracts.

11. OTHER

Controls environment

Internal controls over financial reporting

Based on the evaluation of the design of Parkland's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in NI 52-109, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that Parkland's DC&P and ICFR were designed effectively as at September 30, 2018.

In accordance with the provisions of NI 52-109, Parkland has limited the scope of its design of Parkland's DC&P and ICFR to exclude controls, policies and procedures of businesses acquired not more than 365 days before September 30, 2018, as Parkland closed the Rhinehart Acquisition on August 27, 2018 and the Chevron Acquisition on October 1, 2017. This scope limitation is primarily due to the time required for Parkland's management to assess DC&P and ICFR in a manner consistent with Parkland's other operations.

Certain financial information related to the Chevron Acquisition under the NI 52-109 scope limitation as at September 30, 2018 is summarized as follows: 1) current assets of \$703 million, 2) non-current assets of \$1,793 million, 3) current liabilities of \$472 million, 4) non-current liabilities of \$237 million, and 5) sales and operating revenue of \$2,609 million for the nine months ended September 30, 2018. Net earnings that reflect the full results of the Chevron Acquisition cannot be reasonably determined due to certain overhead expenses that cannot be allocated such as finance costs, marketing, general and administrative expenses, and acquisition, integration and other costs.

Certain financial information related to the Rhinehart Acquisition under the NI 52-109 scope limitation as at September 30, 2018 is summarized as follows: 1) current assets of \$43 million, 2) non-current assets of \$169 million, 3) current liabilities of \$26 million, 4) non-current liabilities of \$6 million, 5) sales and operating revenue of \$45 million for the nine months ended September 30, 2018, and 6) net earnings of \$2 million for the nine months ended September 30, 2018.

Changes in internal controls over financial reporting

Other than as described above, there were no changes in Parkland's ICFR during the nine months ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, Parkland's ICFR. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems that are determined to be effective can provide only reasonable, but not absolute assurance, that financial information is accurate and complete. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Off-balance sheet arrangements

In the normal course of business, Parkland is obligated to make future payments, including contractual obligations and guarantees. Parkland believes all relationships or arrangements with entities that are likely to have a material effect on its liquidity or the availability of capital resources have been consolidated into the financial statements. Parkland has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business.

Guarantees

As at September 30, 2018, Parkland provided \$739 million (December 31, 2017 – \$730 million) of unsecured guarantees to counterparties of commodities swaps used in purchases and supply agreements of crude, fuel and other petroleum products.

Letters of credit and surety bonds

Parkland provides guarantees in the form of letters of credit and surety bonds in the ordinary course of business. As at September 30, 2018, these guarantees amount to \$224 million (December 31, 2017 – \$175 million) and have not been recognized in the consolidated financial statements. Maturity dates of these guarantees vary and are up to and including November 18, 2019.

Shares outstanding

As at November 1, 2018, Parkland had approximately 133 million common shares, 4 million share options and 1 million restricted share units outstanding. The share options consist of approximately 2 million share options that are currently exercisable into shares.

12. FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

Measures of segment profit – GAAP financial measures

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") and adjusted gross profit, including fuel and petroleum product adjusted gross profit and non-fuel adjusted gross profit, are considered IFRS measures as they are determined and presented within Note 24 – Segment Information of the Annual Consolidated Financial Statements and Note 14 – Segment Information of the Interim Condensed Consolidated Financial Statements as Parkland's segment profit. These measures are used by the chief operating decision maker to make decisions about resource allocation to the segment and to assess its performance. In accordance with IFRS, adjustments and eliminations made in preparing an entity's financial statements and allocations of revenue, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. As such, these measures are unlikely to be comparable to measures of segment profit and loss presented by other issuers, who may calculate these measures differently. Refer to Note 14 of the Interim Condensed Consolidated Financial Statements for a full reconciliation of Adjusted EBITDA and adjusted gross profit for each of Parkland's operating segments.

Adjusted EBITDA

Parkland views Adjusted EBITDA as the key measure for the underlying core operating performance of business segments activities at an operational level. Adjusted EBITDA is used by management to set targets for Parkland (including annual guidance and variable compensation targets) and is used to determine Parkland's ability to service debt, finance capital expenditures and provide for dividend payments to shareholders. Adjusted EBITDA excludes costs that are not considered representative of Parkland's underlying core operating performance, including, among other items: (i) costs related to potential and completed acquisitions, (ii) non-core acquisition and integration employee costs, (iii) business integration and restructuring costs, (iv) changes in the fair value of the outstanding deferred share units liability, and (v) realized foreign exchange gains and losses as a result of refinancing activities. Adjusted EBITDA is calculated and reconciled from net earnings as follows:

	Three months ended September 30,		Nine months ended September 30,	
(\$ millions)	2018	2017	2018	2017
Net earnings	49	12	129	33
Depreciation and amortization	77	47	222	97
Finance costs	28	14	109	42
(Gain) loss on asset disposals	–	(2)	23	(1)
Acquisition, integration and other costs	24	19	53	43
Loss (gain) on risk management and other derivatives – unrealized	16	1	21	(8)
(Gain) loss on foreign exchange – unrealized	(19)	1	6	2
Adjusting items ⁽¹⁾	9	–	4	–
Income tax expense	16	4	35	12
Adjusted EBITDA	200	96	602	220

⁽¹⁾ Adjusting items for the three months ended September 30, 2018 include a \$3 unrealized loss on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and a \$6 realized loss on foreign exchange relating to debt refinancing activities. Adjusting items for the nine months ended September 30, 2018 include a \$2 unrealized gain on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and a \$6 realized loss on foreign exchange relating to debt refinancing activities.

Adjusted gross profit

Parkland uses adjusted gross profit as a measure of segment profit and loss to analyze the performance of sale and purchase transactions and performance on margin. Adjusted gross profit is calculated and reconciled as follows:

	Three months ended September 30,		Nine months ended September 30,	
(\$ millions)	2018	2017	2018	2017
Sales and operating revenue	3,849	2,600	10,974	6,191
Cost of purchases	(3,372)	(2,335)	(9,564)	(5,565)
Loss on risk management and other derivatives – realized	(16)	—	(7)	(3)
(Loss) gain on foreign exchange – realized	(5)	1	1	2
Adjusting items	9	—	4	—
Adjusted gross profit	465	266	1,408	625
Fuel and petroleum product adjusted gross profit	393	205	1,206	488
Non-fuel adjusted gross profit	72	61	202	137
Adjusted gross profit	465	266	1,408	625

Non-GAAP financial measures

Certain financial measures in this MD&A are not prescribed by GAAP. These non-GAAP financial measures are included because management uses the information to analyze operating performance, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. Except as otherwise indicated, these non-GAAP measures are calculated and disclosed on a consistent basis from period to period.

Non-GAAP financial measure	Description	Formula	Why we use the measure and why it is useful
Credit Facility earnings before interest, taxes, depreciation and amortization ("Credit Facility EBITDA")⁽¹⁾	Debt covenant earnings metric defined in Parkland's Credit Facility	Credit Facility EBITDA ⁽¹⁾ = Adjusted EBITDA + share incentive compensation + acquisition pro-forma EBITDA adjustment ⁽²⁾ + acquisition, integration and other costs adjustment ⁽²⁾	We use this metric to monitor Parkland's ability to service debt and meet current and future commitments.
Senior Funded Debt to Credit Facility EBITDA ratio⁽¹⁾	Debt covenant ratio metric defined in Parkland's Credit Facility, where Credit Facility EBITDA is compared to Senior Funded Debt as a ratio	Senior Funded Debt to Credit Facility EBITDA ⁽¹⁾ = Senior Funded Debt ÷ Credit Facility EBITDA Senior Funded Debt = [current portion of long-term debt + bank indebtedness + non-current portion of long-term debt (excluding Senior Unsecured Notes) + letters of credits and surety bonds] ÷ cash and cash equivalents and restricted cash	We use these ratios to demonstrate compliance with debt covenants and provide users with an indication of Parkland's ability to repay debt. To manage Parkland's financing requirements, we may adjust capital spending or dividends paid to shareholders, or issue new shares or new debt. These metrics are also used to monitor and guide Parkland's overall financial strength and capital structure flexibility.
Total Funded Debt to Credit Facility EBITDA ratio⁽¹⁾	Debt covenant metric defined in Parkland's Credit Facility, where Credit Facility EBITDA is compared to Total Funded Debt as a ratio	Total Funded Debt to Credit Facility EBITDA ⁽¹⁾ = Total Funded Debt ÷ Credit Facility EBITDA Total Funded Debt = Senior Funded Debt + Senior Unsecured Notes	
Interest coverage ratio⁽¹⁾	Debt covenant metric defined in Parkland's Credit Facility, where Credit Facility EBITDA is compared to interest ⁽²⁾ as a ratio	Interest coverage ratio ⁽¹⁾ = Credit Facility EBITDA ÷ interest ⁽²⁾	We use this ratio to provide us with an indication of Parkland's ability to pay interest on its outstanding debt, in addition to demonstrating compliance with debt covenants.
Net unit operating cost ("NUOC")⁽¹⁾	Retail industry metric that represents adjusted fuel gross profit required per litre for the segment to break even on operating costs and management, general and administrative ("MG&A") expenses	NUOC ⁽¹⁾ = [operating costs + MG&A expenses – non-fuel adjusted gross profit] ÷ fuel and petroleum product volume	We use this metric to measure performance of the Retail segment. We believe it provides transparency and predictive value for operating costs and MG&A expenses in relation to fuel sales within the segment.

Non-GAAP financial measure	Description	Formula	Why we use the measure and why it is useful
TTM operating ratio⁽¹⁾	Operating metric that represents operating costs and MG&A expenses as a percentage of gross profit	TTM operating ratio ⁽¹⁾ = [operating costs + MG&A expenses] ÷ adjusted gross profit	We use this ratio to measure performance of the Commercial and Parkland USA segments as we believe it provides transparency and predictive value on operating costs and MG&A expenses.
Corporate marketing, general and administrative expenses as a % of adjusted gross profit	Ratio that measures percentage of corporate expenses in relation to Parkland's adjusted gross profit	Corporate MG&A as a % of adjusted gross profit = corporate MG&A expenses ÷ consolidated adjusted gross profit	We use this metric to measure the effectiveness of Parkland's corporate operations in relation to Parkland's overall business. We believe this metric provides transparency and predictive value for corporate MG&A in relation to Parkland's entire adjusted gross profit.
Distributable cash flow	Cash flow metric that adjusts for the impact of seasonality in Parkland's business by removing non-cash working capital items	Distributable cash flow = cash flow from operating activities - change in other liabilities - net change in non-cash working capital + maintenance capital expenditures + proceeds on asset sales and disposals	We use this metric to monitor normalized cash flows of the business by eliminating the impact of Parkland's working capital fluctuations, which can vary significantly from quarter to quarter.
Adjusted distributable cash flow	Distributable cash flow metric that excludes acquisition, integration and other costs	Adjusted distributable cash flow = distributable cash flow - acquisition, integration and other costs - Turnaround maintenance capital expenditures	We use this metric to monitor core distributable cash flows of the business without the impact of expenditures used in acquisitions, integration and other activities, which fluctuate significantly.
Distributable cash flow per share	Distributable cash flow presented on a per share basis	Distributable cash flow per share = distributable cash flow ÷ weighted average number of common shares	We measure this metric on a per share basis, as we believe this provides useful information to individual shareholders.
Adjusted distributable cash flow per share	Adjusted distributable cash flow presented on a per share basis	Adjusted distributable cash flow per share = adjusted distributable cash flow ÷ weighted average number of common shares	
Dividend payout ratio	Ratio of dividends distributed to distributable cash flow	Dividend payout ratio = dividends ÷ distributable cash flow	We use these ratios as indicators of Parkland's ability to generate cash flows to sustain monthly dividends, including those issued under the dividend reinvestment plan.
Adjusted dividend payout ratio	Ratio of dividends distributed to adjusted distributable cash flow	Adjusted dividend payout ratio = dividends ÷ adjusted distributable cash flow	

⁽¹⁾ Calculated on a trailing-twelve-month basis.

⁽²⁾ Determined pursuant to the terms of the Credit Facility.

Maintenance capital expenditures and growth capital expenditures

Parkland uses maintenance capital expenditures as a financial measure to monitor expenditures on property, plant and equipment and intangible assets to sustain the current level of economic activity and maintain cash flows from operating activities at a constant level of productive capacity. Parkland considers the volume of fuel and propane sales, volume of convenience store sales, volume of lubricant sales, agricultural inputs, and delivery to be productive capacity. Examples of maintenance capital expenditures include:

- Turnaround and other maintenance projects at the Burnaby Refinery;
- upgrades of service stations, including primarily aesthetic major renovations (also known as "refreshes") of retail service stations;
- rebrand or refresh of service stations, including securing a supply agreement with a new independent retailer;
- replacement of existing concrete structures, paving, roofing, furniture and equipment;
- upgrade or replacement of trucking fleets; and
- upgrade of software systems or point-of-sale systems.

Parkland uses growth capital expenditures as a measure to monitor expenditures on property, plant and equipment and intangible assets that increase the current level of economic activity. Examples of growth capital expenditures include:

- new site builds within the Retail segment under the "New-To-Industry" program;
- construction of a new building on an existing site;
- IT capital expenditures related to integration of acquired businesses;
- acquisition of new real estate;
- addition of new trucks and trailers to increase the size of the fleet;
- addition of new equipment to increase the size and capacity of a retail fuel service station; and
- addition of new infrastructure and tanks to support large new customer contracts.

The classification of capital as growth or maintenance is subject to judgment, as many of Parkland's capital projects have components of both. The combination of maintenance and growth capital expenditures reflects all additions to property, plant and equipment and intangible assets. A reconciliation of this measure is presented in Section 8 of this MD&A.

Non-GAAP financial measure reconciliations

Credit Facility EBITDA

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2018
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	
Adjusted EBITDA	198	153	249	200	800
Share incentive compensation	6	—	4	5	15
	204	153	253	205	815
Acquisition pro-forma adjustment ⁽¹⁾					21
Acquisition, integration and other costs adjustment ⁽²⁾					(8)
Credit Facility EBITDA					828

⁽¹⁾ Amounts for the trailing twelve months ended September 30, 2018 include pro-forma pre-acquisition EBITDA estimates as if the acquisitions during the period occurred on July 1, 2017 pursuant to the terms of the Credit Facility. This amount is used for debt covenant calculation purposes only.

⁽²⁾ The adjustment for acquisition, integration and other costs was calculated to be \$8 million pursuant to the terms of the Credit Facility dated March 29, 2018. This amount is used for debt covenant calculation purposes only.

(\$ millions)	Three months ended				Trailing twelve months ended December 31, 2017
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	
Adjusted EBITDA	70	54	96	198	418
Share incentive compensation	2	1	1	6	10
	72	55	97	204	428
Acquisition pro-forma adjustment ⁽¹⁾					350
Acquisition, integration and other costs adjustment ⁽²⁾					(5)
Credit Facility EBITDA					773

⁽¹⁾ Amounts for the trailing twelve months ended December 31, 2017 include pro-forma pre-acquisition EBITDA estimates as if the acquisitions during the year occurred on January 1, 2017 pursuant to the terms of the Credit Facility. This amount is used for debt covenant calculation purposes only.

⁽²⁾ The adjustment for acquisition, integration and other costs was calculated to be \$5 million pursuant to the terms of the Credit Facility dated September 28, 2017. This amount is used for debt covenant calculation purposes only.

Senior Funded Debt and Total Funded Debt to Credit Facility EBITDA ratios

(\$ millions)	September 30, 2018	December 31, 2017
Senior Funded Debt:		
Long-term debt – current portion	105	4
Long-term debt – non-current portion (excluding Senior Unsecured Notes)	226	822
Letters of credit and surety bonds ⁽¹⁾	29	37
Less: Cash and cash equivalents	(20)	(23)
Senior Funded Debt	340	840
Senior Unsecured Notes	1,833	1,188
Total Funded Debt	2,173	2,028
Credit Facility EBITDA	828	773
Senior Funded Debt to Credit Facility EBITDA ratio	0.41	1.09
Total Funded Debt to Credit Facility EBITDA ratio	2.62	2.62

⁽¹⁾ Calculated pursuant to the terms of the Credit Facility.

Interest coverage ratio

For the trailing twelve months ended (\$ millions)	September 30, 2018	December 31, 2017
Credit Facility EBITDA	828	773
Interest ⁽¹⁾	140	102
Interest coverage ratio	5.91	7.65

⁽¹⁾ Calculated pursuant to the terms of the Credit Facility.

NUOC

Retail

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2018
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	
Operating costs	81	76	82	80	319
Marketing, general and administrative	15	15	14	15	59
Less: Non-fuel adjusted gross profit	(36)	(35)	(40)	(38)	(149)
	60	56	56	57	229
Fuel and petroleum product volume ⁽¹⁾ (million litres)	1,731	1,586	1,725	1,852	6,894
NUOC	3.49	3.53	3.25	3.08	3.32

⁽¹⁾ Includes gasoline, diesel and propane volumes.

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2017
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	
Operating costs ⁽¹⁾	25	25	25	66	141
Marketing, general and administrative	6	7	7	12	32
Less: Non-fuel adjusted gross profit	(15)	(13)	(14)	(33)	(75)
	16	19	18	45	98
Fuel and petroleum product volume ⁽²⁾ (million litres)	936	844	967	1,667	4,414
NUOC ⁽¹⁾	1.82	2.24	1.91	2.68	2.25

⁽¹⁾ Operating costs and NUOC were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

⁽²⁾ Includes gasoline, diesel and propane volumes.

TTM operating ratio

Commercial

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2018
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	
Operating costs	50	57	45	41	193
Marketing, general and administrative	12	9	11	11	43
	62	66	56	52	236
Adjusted gross profit	90	104	74	62	330
TTM operating ratio					71.5%

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2017
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	
Operating costs ⁽¹⁾	33	38	33	37	141
Marketing, general and administrative	6	6	6	11	29
	39	44	39	48	170
Adjusted gross profit	55	73	44	56	228
TTM operating ratio ⁽¹⁾					74.4%

⁽¹⁾ Operating costs and TTM operating ratio were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Parkland USA

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2018
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	
Operating costs	10	10	11	13	44
Marketing, general and administrative	3	2	2	3	10
	13	12	13	16	54
Adjusted gross profit	17	16	18	24	75
TTM operating ratio					72.0%

(\$ millions)	Three months ended				Trailing twelve months ended September 30, 2017
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	
Operating costs ⁽¹⁾	10	10	11	10	41
Marketing, general and administrative	2	2	2	1	7
	12	12	13	11	48
Adjusted gross profit	16	15	18	15	64
TTM operating ratio ⁽¹⁾					74.5%

⁽¹⁾ Operating costs and the TTM operating ratio were restated to conform to current year's presentation in the consolidated statements of income. Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Corporate marketing, general and administrative expenses as a % of adjusted gross profit

(\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Corporate marketing, general and administrative expenses	26	15	79	37
Parkland's adjusted gross profit	465	266	1,408	625
Corporate marketing, general and administrative expenses as a % of Parkland's adjusted gross profit	5.6%	5.5%	5.6%	6.0%

Key Performance Indicators ("KPIs")

In addition to the non-GAAP financial measures, Parkland uses a number of operational KPIs to measure the success of our strategic objectives, which are also used by management to set variable compensation targets for employees. These KPIs are not accounting measures, do not have comparable IFRS measures, and may not be comparable to similar measures presented by other issuers, as other issuers may calculate these metrics differently.

KPI	Description	Calculation	Why we use the KPI and why it is useful	Comments
Company C-Store same-store sales growth ("Company C-Store SSSG")	Company C-Store SSSG refers to sales growth generated by retail convenience stores at Company sites. The effects of opening and closing stores, temporary closures, expansions and renovations of stores in the period are excluded to derive a comparable same store metric.	At Parkland, Company C-Store SSSG is derived from the point-of-sale ("POS", i.e. cash register) values of goods and services sold to retail customers at convenience stores operated by retailers at Company sites. Specifically, current year POS sales of active sites are compared to the prior year POS sales of comparable sites. Since Parkland generally collects fixed rent for the facilities plus a percentage rent on convenience store sales from the retailer and typically does not directly own or sell the convenience store inventory, the POS amounts used to calculate Company C-Store SSSG is not a Parkland financial measure and does not form part of Parkland's consolidated financial statements.	Same-store sales growth is a metric commonly used in the retail industry. As such, Parkland believes that this measure provides meaningful information to investors in assessing the health and strength of Parkland's brands and the Retail network, which ultimately impacts its financial performance.	Results of sites acquired under the Ultramar Acquisition are included in the Company C-Store SSSG calculations for the three and nine months ended September 30, 2018 and 2017. However, results of sites acquired under the Chevron Acquisition are excluded for these periods as comparable information is not available.
Volume same-store sales growth ("Volume SSSG")	Volume SSSG refers to fuel and petroleum product sales growth at active Company and Dealer sites. The effects of opening and closing stores, temporary closures, expansions and renovations of stores in the period are excluded.	At Parkland, Volume SSSG is derived by comparing the current year volume of active sites to the prior year volume of comparable sites.	Volume SSSG is a metric commonly used in the retail industry. As such, Parkland believes that this measure provides meaningful information to investors in assessing the health and strength of Parkland's brands and the Retail network, which ultimately impacts its financial performance.	Results of sites acquired under the Ultramar Acquisition are included in the calculations of Volume SSSG for the three and nine months ended September 30, 2018 and 2017. However, results of sites acquired under the Chevron Acquisition are excluded for these periods as comparable information is not available.
Measures calculated on a cents-per-litre ("cpl") basis	Financial measures calculated on a cpl basis (e.g. operating costs - cpl) refer to the specific financial metric for a litre of fuel and petroleum product sold in the related segment.	The financial measure (e.g. adjusted gross profit, operating costs, etc.) is divided by the relevant fuel and petroleum product volume of the segment to arrive at the cpl basis.	Cpl metrics are used by management to identify trends in financial measures while removing the impact of volume variability, where appropriate.	
Refinery utilization	Refinery utilization refers to the amount of crude oil and feedstocks that run through crude distillation compared to the refinery capacity.	The amount of crude oil and feedstocks that run through crude distillation units expressed as a percentage of the capacity of these units.	Refinery utilization provides meaningful information to investors in evaluating the operational performance of the refinery.	A higher utilization generally allows for more efficient operations and lower costs per barrel.
Annual Synergies	Annual Synergies is a forward-looking estimate of improvements in Adjusted EBITDA driven by increases in adjusted gross profit and reductions in operating costs and marketing, general and administrative expenses expected to be realized from integrating the Acquisitions and other related initiatives.	This estimate is stated as a comparison of the acquisitions' performance before and after acquisition, presented as an annualized measure. This forward-looking estimate is based on comparative analysis of organizational structures, level of spending, and contract structures, as well as synergies expectations and cost reductions from implementing integration initiatives, increased purchasing power, and contract renegotiations, among other items.	Annual Synergies is used to measure synergy expectations of acquisitions against their investment business case.	Changes to these assumptions and timing of implementation of initiatives can significantly impact Annual Synergies. See Section 14 of this MD&A.

KPI	Description	Calculation	Why we use the KPI and why it is useful	Comments
Lost time injury frequency ("LTIF") and total recordable injury frequency ("TRIF")	LTIF and TRIF are industry measures of health and safety that provide the number of lost time incidents and total recordable incidents, respectively, that occurred within a given period relative to a standardized number of hours worked.	LTIF and TRIF are calculated by multiplying the number of incidents by 200,000, divided by the total number of employee hours worked.	LTIF and TRIF provide meaningful information on evaluating our performance in providing a safe working environment. The LTIF metric represents the number of people for every 100 employees injured to an extent that they cannot perform any work for a minimum of one day, post-injury.	A lost time incident is one where an employee sustained a job-related injury or illness and was not able to work their next full shift. Recordable incidents include all instances where medical attention from a medical professional is required, even if the employee is able to work their next shift.

Glossary of terms

Term	Definition
Backcourt	Terminology used in the retail gas industry that refers to the part of the retail station where convenience store merchandise and services such as car washes are sold.
Crack spread	Terminology used in the oil and gas industry that refers to the general price differential between crude oil and petroleum products refined from it.
Forecourt	Terminology used in the retail gas industry that refers to the part of a retail station where fuel is sold at the pump.

13. OUTLOOK

Grow organically

Parkland will continue to build and expand the On the Run / Marché Express convenience store offering, which will provide a strong platform for Parkland Retail growth across Canada. The remainder of 2018 includes continued implementation of our newly refreshed On the Run / Marché Express store designs and expanded offerings of our private label brand, 59th Street Food Co. Parkland Commercial will continue to optimize its operations and execute strategic initiatives as it enters the traditionally busy winter season. Overall, Parkland will continue to maintain ongoing focus on retaining existing customers and winning new customers across all segments.

Strong supply advantage

As part of our strategy to enhance our supply advantage, Parkland will continue the successful operation of the Burnaby Refinery and improve supply costs across Canada. We will also continue to work to be the partner of choice for all refiners in Canada.

Acquire prudently

For the remainder of 2018, Parkland will remain focused on closing the Sol Transaction, which is currently targeted for the fourth quarter of 2018. Moreover, Parkland is continuing to integrate earlier acquisitions and driving synergies to create shareholder value, including the following activities:

- Parkland is currently in the process of converting the ERP system used in the Supply segment of the Chevron Acquisition to Parkland's ERP system and is progressing towards the exit of the Chevron Acquisition TSA.
- Parkland has completed initiatives that are expected to result in Annual Synergies on the Acquisitions of approximately \$65 million for fiscal year 2018. Parkland expects that Annual Synergies on the Acquisitions will reach approximately \$180 million by the end of 2020.

Furthermore, in line with our disciplined strategy of acquiring prudently, Parkland will continue to review its acquisition pipeline for potential targets and initiate acquisitions as strategic opportunities arise.

Enable our teams to succeed

At the core of our strategic imperatives are our people. For the remainder of the year, we will continue to focus on building One Parkland Team by leveraging and integrating our legacy and our acquired talents and resources. We will enable our teams to succeed by recruiting great, high-calibre people, fostering engagement, building an industry-leading people culture and investing in technology. At Parkland, our employees are our most important resource and by investing in our people and building One Parkland Team, we are directly contributing to the success of our organization and driving shareholder value.

2018 Guidance Range

As a result of the performance experienced in 2018 to date, our previously disclosed Adjusted EBITDA guidance remains unchanged at approximately \$775 million with an anticipated variance of up to 5% (the "2018 Guidance Range"). Refer to the MD&A dated August 2, 2018 for discussion of the 2018 Guidance Range.

The 2018 Guidance Range is based on certain assumptions, including, among other assumptions, estimates of future performance of the businesses acquired in the Acquisitions, with such estimates being based on recent performance, integration synergies being realized ahead of expectations, sustainment of supply initiatives, and the continuation of strong refining margins.

The 2018 Guidance Range includes growth scenarios that build off the 2017 Adjusted EBITDA of \$418 million and the assumption that the performance of the businesses purchased through the Acquisitions, general market conditions, including but not limited to fuel margins, refining margins and weather, will remain substantially consistent in 2018. Furthermore, the 2018 Guidance Range excludes the Sol Transaction.

Additionally, the negative 5% variance accounts for potential adverse market conditions in western Canada and the northern U.S. as well as lower crack spreads, while the positive 5% variance accounts for contributions from synergies relating to prior acquisitions (including the Acquisitions), higher crack spreads and Parkland achieving its previously disclosed average annual organic growth goal of 3-5%. In addition, the factors and assumptions which contribute to Parkland's assessment of the 2018 Guidance Range are consistent with existing Parkland disclosure and such guidance range is subject to risks and uncertainties inherent in Parkland's business. Readers are directed to the "Risk Factors" section in the Annual MD&A and the Annual Information Form for a description of such factors, assumptions, risks and uncertainties.

14. FORWARD-LOOKING INFORMATION

Caution regarding forward-looking information

This MD&A contains certain forward-looking information. Forward-looking information can generally be identified by words such as "believes", "expects", "expected", "will", "plan", "intends", "target", "would", "seek", "could", "projects", "projected", "anticipates", "estimates", "continues", or similar words. In particular, this MD&A contains forward-looking information including, without limitation, forward-looking statements regarding Parkland's:

- commitment to delivering competitive and sustainable returns to shareholders by being the partner of choice for our customers and suppliers, and how we plan to accomplish this mission;
- commitment to drive organic growth by innovatively pursuing opportunities to increase gross profit, focusing on delivering a great customer experience and continuously improving efficiencies;
- strategy to reliably and consistently purchase large volumes of the full range of refined products produced by refineries in the geographic markets we operate;
- goal to deliver a supply advantage by leveraging market inefficiencies and being a partner of choice for refiners;
- expectations regarding the completion of previously announced transactions, including the closing of the Sol Transaction;
- expectations regarding the anticipated benefits of acquisitions, including the Acquisitions, the Rhinehart Acquisition and the Sol Transaction;
- expectations regarding, and ability to complete, the financing arrangements with respect to previously announced transactions, including the financing related to the Sol Transaction;
- expected exercise of the put right for Sol Limited to sell and a call right for Parkland to acquire the remaining outstanding shares of Sol and the terms thereof;

- expectations regarding the accretive effects of acquisitions and the anticipated benefits and synergies of such acquisitions, including the timing of the synergies, success and implementation of the systems integration and its additions to Parkland's fuel sales, Adjusted EBITDA and distributable cash flow;
- business and growth strategies, including the manner in which such strategies will be implemented;
- anticipation of building on the On the Run / Marché Express convenience store franchise system and related trademarks in Canada, providing a strong retail platform for Parkland to expand and support the Parkland Retail offering across Canada, including, but not limited to, the success of the Flagship and Retrofit site concepts and the profitability of the private label brand, 59th Street Food Co.;
- ability to use market inefficiencies to its advantage by acting on arbitrage opportunities as well as leveraging unbranded volume, transportation, relationships and strategic storage capabilities;
- strategy to optimize the value of other products that are not sold through its "owned" marketing channels;
- platform for growth in the United States and Canada;
- ability to build and leverage relationships with the objective of being the buyer of choice for prospective vendors;
- ability to effectively integrate acquisitions to drive operational efficiency, create synergies and generate shareholder value;
- ability to operate the Burnaby Refinery profitably;
- ability to deliver competitive returns to shareholders;
- expectations regarding the effects of seasonality on demand for products offered by the Commercial and Retail business segments;
- ability to meet payment obligations as they come due;
- capital investment philosophy;
- intention in respect of dividend payments;
- anticipated sources of liquidity to fund maintenance capital, interest, income taxes, targeted dividends and other committed capital expenditures;
- expected sources for growth capital expenditures, future acquisitions and debt servicing payments;
- expectations regarding Annual Synergies and 2018 Guidance Range;
- ability to adjust capital spending and to adjust dividends paid to shareholders; and
- expectations regarding the benefits, including benefits to consumers and marketplace efficiencies, and financial projections of the Acquisitions and the Rhinehart Acquisition.

The forward-looking information contained herein is based upon Parkland's current views with respect to future events based on certain material factors and assumptions. As such, readers are urged to consider the factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements.

The forward-looking statements contained in this MD&A are based upon a number of material factors and assumptions including, without limitation:

- the regulatory framework that governs the operation of Parkland's business;
- Parkland's ability to successfully close the Sol Transaction;
- failure to obtain necessary regulatory or other third-party consents and approvals required to complete the Sol Acquisition;
- Parkland's ability to successfully integrate the Acquisitions and the Rhinehart Acquisition into Parkland's operations;
- Parkland's ability to realize synergies and cost reductions from the implementation of integration initiatives, increased purchasing power, and contract renegotiations, among other items;
- commodity prices for gasoline, diesel, propane, lubricants, heating oil and other high-quality petroleum products;
- crack spreads per barrel and US dollar foreign exchange rates;
- financial market conditions, including interest rates and exchange rates;
- ability to successfully expand Parkland's business into the Caribbean;
- ability of suppliers to meet commitments;

- ability to retain key management;
- Parkland's future debt levels;
- Parkland's ability to generate sufficient cash flows from operations to meet its current and future obligations;
- future capital expenditures to be made by Parkland;
- access to, and terms of, future sources of funding for Parkland's capital program; and
- Parkland's ability to continue to compete in a competitive landscape, as well as the additional factors referenced in the Annual Information Form.

These forward-looking statements involve numerous assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking information contained herein is based upon Parkland's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties including, without limitation, changes in market, competition, governmental or regulatory developments, and general economic conditions and other factors under the heading "Risk Factors" in the Annual Information Form. More specifically, certain material factors and assumptions that could cause actual results to vary materially from those anticipated include, without limitation:

- general market conditions;
- ability to execute on our business and growth strategy and realize the benefits therefrom;
- ability to realize the benefits from our core capabilities;
- ability to capture value in each step of the value chain;
- ability to realize the expected benefits, synergies and opportunities from acquisitions;
- ability to secure future capital to support and develop our business, including the issuance of additional common shares;
- ability to secure funding to finance the consideration payable to acquire the remaining portion of the Sol shares;
- effectiveness of Parkland's management systems and programs;
- factors and risks associated with retail pricing, margins and crack spreads;
- factors and risks associated with the Sol Transaction, as further particularized in Section 10 of this MD&A;
- availability and pricing of petroleum product supply;
- volatility of crude oil prices;
- the competitive environment of our industry in North America and the Caribbean;
- environmental impact;
- risk of pending or future litigation;
- interest rate and foreign exchange rate fluctuations;
- potential undisclosed liabilities (including environmental) associated with the Acquisitions, the Rhinehart Acquisition and the Sol Transaction;
- failure to meet financial, operational and strategic objectives and plans; and
- availability of capital and operating funds.

Additional information on these and other factors that could affect Parkland's operations or financial results is discussed in this MD&A, the Annual Information Form and other continuous disclosure documents (available under Parkland's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or Parkland's website at www.parkland.ca).

The forward-looking statements speak only as of the date of this MD&A and Parkland does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by these cautionary statements.

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