

Q2 2018



Report to shareholders

Management's Discussion and Analysis

Q2 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 August 2, 2018 should be read in conjunction with our June 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 June 30,			Six months ended June 30,		
	2018	2017	2016	2018	2017	2016
Financial Summary						
Sales and operating revenue	3,783	1,806	1,570	7,125	3,591	2,888
Adjusted gross profit ⁽¹⁾	513	168	167	943	359	340
Adjusted EBITDA ⁽¹⁾	249	54	56	402	124	116
Net earnings	60	(1)	5	80	21	30
Per share – basic	0.45	(0.01)	0.05	0.61	0.20	0.31
Per share – diluted	0.45	(0.01)	0.05	0.60	0.20	0.31
Distributable cash flow ⁽²⁾	118	23	28	147	61	63
Per share ⁽²⁾⁽³⁾	0.89	0.20	0.30	1.12	0.59	0.67
Adjusted distributable cash flow ⁽²⁾	139	39	36	249	85	76
Per share ⁽²⁾⁽³⁾	1.05	0.35	0.39	1.89	0.82	0.80
Dividends	41	33	27	79	61	54
Dividends declared per share outstanding	0.2934	0.2886	0.2835	0.5836	0.5738	0.5580
Dividend payout ratio ⁽²⁾	35%	146%	96%	54%	99%	85%
Adjusted dividend payout ratio ⁽²⁾	29%	84%	74%	32%	71%	71%
Total assets	5,592	4,281	1,834	5,592	4,281	1,834
Total long-term liabilities	2,533	2,075	583	2,533	2,075	583
Shares outstanding (millions)	132	130	95	132	130	95
Weighted average number of common shares (millions)	132	111	95	132	104	95
Operating Summary						
Fuel and petroleum product volume (million litres) ⁽⁴⁾	4,202	2,588	2,536	8,413	5,344	4,973
Fuel and petroleum product adjusted gross profit ⁽¹⁾ (cpl) ⁽⁵⁾ :						
Retail	8.00	5.78	5.64	7.94	5.53	5.41
Commercial	7.99	9.36	10.47	8.85	11.59	11.98
Parkland USA	3.66	3.31	3.17	3.66	3.43	3.49
Operating costs ⁽⁶⁾ (cpl)	4.62	3.00	2.93	4.77	3.06	3.07
Marketing, general and administrative (cpl)	1.67	1.41	1.42	1.66	1.34	1.42

⁽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 (loss). Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

3. PERFORMANCE OVERVIEW

Q2 2018 Highlights

Parkland achieved record Adjusted EBITDA of \$249 million and net earnings of \$60 million in the second quarter of 2018 compared to Adjusted EBITDA of \$54 million and net loss of \$1 million in second quarter of 2017. This was mainly driven by contributions from the Ultramar Acquisition⁽⁷⁾ and the Chevron Acquisition⁽⁷⁾ (collectively, the "Acquisitions") and the realization of synergies ahead of expectations for the Acquisitions. Company C-Store SSSG⁽⁷⁾ was 8.1% across Canada, well above Parkland's 3-5% strategic organic growth target. Furthermore, the Burnaby Refinery Turnaround⁽⁷⁾ was successfully completed in the first week of April 2018, reinforcing Parkland's strong supply advantage and commitment to operating the Burnaby Refinery safely, reliably and profitably. Integration activities are pacing well and ahead of plan. Given the strong second quarter results, Parkland also achieved exceptional Adjusted Payout Ratio of 29%, a record Adjusted Distributable Cash Flow of \$139 million, and a healthy Total Funded Debt to Credit Facility EBITDA ratio of 2.39 as at June 30, 2018.

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

Grow

- Parkland achieved record Adjusted EBITDA of \$249 million in the second quarter of 2018, more than quadruple that of the \$54 million achieved for the same period in 2017. This exceptional growth was driven by the Acquisitions as well as exceptional results from the optimization of our supply economics in Supply and stronger results from higher propane volumes and improved margins in Commercial.
- We delivered 4,202 million litres of fuel and petroleum products in the second quarter of 2018, representing 62% growth compared to 2,588 million litres for the same period in 2017. The additional volume was primarily driven by incremental business from the Acquisitions.
- Sales and operating revenue increased from \$1,806 million in the second quarter of 2017 to \$3,783 million in the second quarter of 2018, driven by the Acquisitions as well as higher commodity and fuel prices.
- Retail achieved outstanding Company C-Store same-store sales growth ("SSSG") of 8.1% across Canada in the second quarter of 2018. This marked the 10th 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 backcourt convenience store optimization, which resulted in higher forecourt to backcourt conversion rates. Parkland also saw growth in sustainable higher-margin categories such as beverages, snacks and confectionery. These efforts resulted in stronger non-fuel performance during the quarter.
- Parkland continued the successful rollout of the national refreshed On the Run / Marché Express store concepts, delivering to date 41 "Retrofit" sites, where existing locations are upgraded to the new store concept. In addition, 5 "Flagship" sites, where new, full-offer facilities are constructed at "New-To-Industry" or "Replacement" locations, were delivered to date. 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 we continue 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 275 locations, continues to perform well. In the second quarter of 2018, we successfully launched new product categories to grow our C-store product mix while maintaining the strength of our core product categories. Our plans to launch new product categories 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.
- To support innovation in driving future growth and as an element of our low carbon strategy, Parkland has entered into a pilot program with Tesla and Hydro Québec to enable electric vehicle charging at some of our locations.

Supply

- The second quarter of 2018 marked the successful completion of a major maintenance event at the Burnaby Refinery (the "Turnaround"), which began in early February and was completed in the first week of April 2018. Since the successful completion of the Turnaround, throughput resumed to expected levels and a 90.9% refinery utilization was achieved in the second quarter of 2018.
- Supply's Adjusted EBITDA for the three and six months ended June 30, 2018 was nine times and six times that of the respective periods in 2017. These exceptional results were driven by contributions from the Acquisitions, robust 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 volumes grew 41% for the second 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

- **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"). 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.

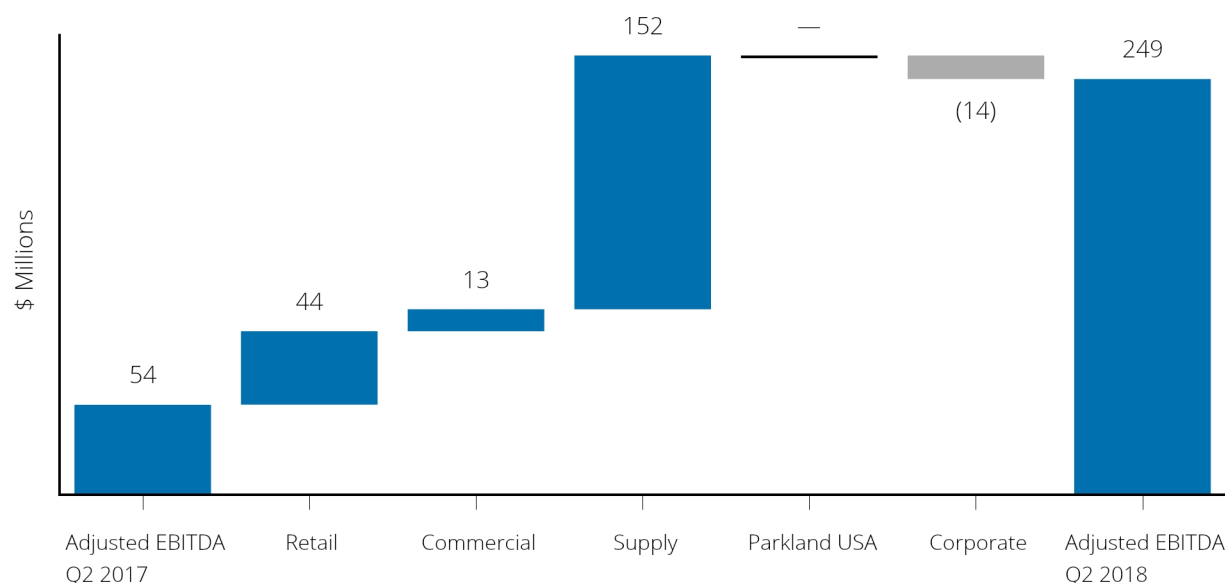
The Acquisitions have performed very well since their respective closing dates, as demonstrated by strong results in the first half of 2018 and the successful Burnaby Refinery Turnaround. Acquisition synergy targets continue to pace above internal plan, reinforcing Parkland's ability and commitment to acquire prudently and integrate successfully. As at June 30, 2018, Parkland completed initiatives that are expected to result in Annual Synergies⁽¹⁾ on the Acquisitions of approximately \$55 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.

In April 2018, 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"). As at August 2, 2018, Parkland has completed the conversion of the ERP system used in the Retail and Commercial segments of the Chevron Acquisition to Parkland's ERP system and is on track to exit the Chevron Acquisition TSA in late 2018.

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

Q2 2018 vs. Q2 2017 overall performance

Adjusted EBITDA growth by segment



Adjusted EBITDA to net earnings (loss)

For the three months ended June 30 (\$ millions)	2018	2017	Change	%
Adjusted EBITDA ⁽¹⁾				
Retail	82	38	44	116 %
Commercial	18	5	13	260 %
Supply	170	18	152	844 %
Parkland USA	5	5	—	— %
Corporate	(26)	(12)	(14)	117 %
	249	54	195	361 %
Less:				
Depreciation and amortization	76	24	52	217 %
Finance costs				
Interest on long-term debt	31	15	16	107 %
Change in fair value of Redemption Options	7	—	7	100 %
Other finance costs ⁽²⁾	2	(1)	3	(300)%
	40	14	26	186 %
Loss on asset disposals	23	1	22	2,200 %
Acquisition, integration and other costs	12	16	(4)	(25)%
Loss on foreign exchange - unrealized	31	—	31	100 %
Gain on Intermediation Facility Derivatives in cost of purchases - unrealized	(3)	—	(3)	100 %
Income tax expense	10	—	10	100 %
Net earnings (loss)	60	(1)	61	(6,100)%

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

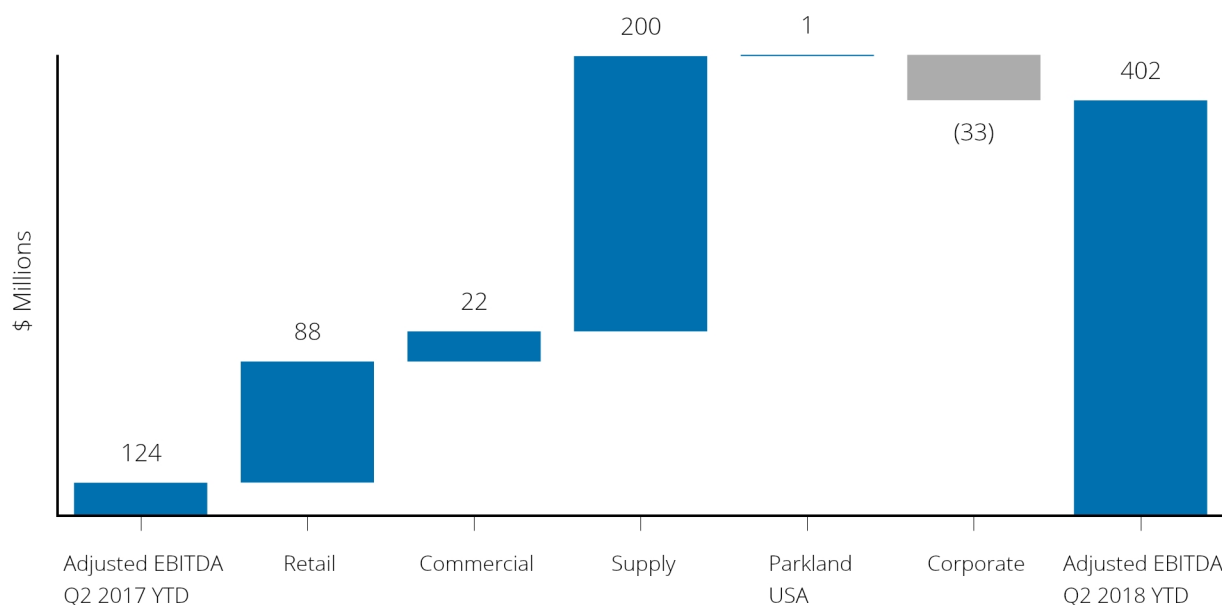
⁽²⁾ Includes amortization of deferred financing costs, accretion on asset retirement obligations, amortization of debt premium arising from Redemption Options and interest income. See Note 13 of the Interim Condensed Consolidated Financial Statements.

- Parkland achieved record second quarter Adjusted EBITDA of \$249 million, representing growth of \$195 million driven mainly by the Acquisitions and exceptional results in Supply. Retail grew \$44 million due to the impact of the Acquisitions and strong Company C-Store SSSG. Commercial grew \$13 million due to the impact of the Acquisitions, higher propane, gasoline and diesel volumes, and higher fuel margins. Supply grew \$152 million as a result of the Acquisitions, robust 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.
- Depreciation and amortization increased \$52 million, driven by higher property, plant and equipment and intangible asset balances from the Acquisitions and completion of the Burnaby Refinery Turnaround.
- Finance costs increased \$26 million in the second quarter of 2018 as expected, driven primarily by: (i) a \$16 million increase in interest on long-term debt primarily due to the March 23, 2018 private placement of 6.00% US Senior Notes and incremental borrowings to fund the Chevron Acquisition, and (ii) a \$7 million non-cash loss recognized on the change in fair value of the Redemption Options of the Senior Unsecured Notes driven by higher market interest rates. 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.
- Loss on asset disposals was \$23 million as expected, primarily as a result of disposals related to the Burnaby Refinery Turnaround.
- Acquisition, integration and other costs decreased \$4 million primarily due to lower acquisition costs given that the Ultramar Acquisition and Chevron Acquisition were completed in 2017. Costs incurred in the second quarter of 2018 were primarily costs incurred to integrate the Acquisitions.
- The \$31 million unrealized loss on foreign exchange was primarily driven by the translation impact of the 6.00% US Senior Notes and the US-denominated Intermediation Facility (see Section 8 of this MD&A) in a weaker Canadian dollar environment. The foreign currency risk on the 6.00% US Senior Notes is mitigated by a US Dollar Currency Swap, which is recognized as an unrealized gain on risk management and other derivatives.
- Income tax expense increased \$10 million for the second quarter of 2018 due to higher taxable earnings.

- As a result of the above main drivers, net earnings were \$60 million for the second quarter of 2018 compared to a net loss of \$1 million in the second quarter of 2017.

Q2 2018 YTD Highlights

Adjusted EBITDA growth by segment



Adjusted EBITDA to Net Earnings

For the six months ended June 30 (\$ millions)	2018	2017	Change	%
Adjusted EBITDA ⁽¹⁾				
Retail	151	63	88	140 %
Commercial	56	34	22	65 %
Supply	241	41	200	488 %
Parkland USA	9	8	1	13 %
Corporate	(55)	(22)	(33)	150 %
	402	124	278	224 %
Less:				
Depreciation and amortization	145	50	95	190 %
Finance costs				
Interest on long-term debt	60	28	32	114 %
Change in fair value of Redemption Options	11	—	11	100 %
Other finance costs ⁽²⁾	10	—	10	100 %
	81	28	53	189 %
Loss on asset disposals	23	1	22	2,200 %
Acquisition, integration and other costs	29	24	5	21 %
Loss (gain) on risk management and other derivatives - unrealized	5	(9)	14	(156) %
Loss on foreign exchange - unrealized	25	1	24	2,400 %
Gain on Intermediation Facility Derivatives in cost of purchases - unrealized	(5)	—	(5)	100 %
Income tax expense	19	8	11	138 %
Net earnings	80	21	59	281 %

⁽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.

- Parkland achieved record Q2 YTD Adjusted EBITDA of \$402 million in 2018 compared to \$124 million in 2017. Retail grew \$88 million primarily as a result of the Acquisitions and strong non-fuel growth, driven by strong Company C-Store SSSG. Commercial grew \$22 million largely due to the Acquisitions and propane volume growth. Supply grew \$200 million as a result of the Acquisitions as well as continued efforts in executing Parkland's supply advantage strategy. Parkland USA grew \$1 million primarily as a result of organic growth. As expected, overall growth was partially offset by higher corporate costs for the Acquisitions.
- Depreciation and amortization increased \$95 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 six months of 2018 increased \$53 million, as expected, primarily due to: (i) a \$32 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, and (ii) a \$11 million non-cash loss recognized on the change in fair value of the Redemption Options of the Senior Unsecured Notes, driven by higher market interest rates.
- Loss on asset disposals was \$23 million as expected, primarily as a result of disposals related to the Burnaby Refinery Turnaround.
- Acquisition, integration and other costs in the first six months of 2018 increased \$5 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. This was partially offset by lower acquisition costs.
- The \$5 million unrealized loss from risk management and other derivatives for the first six months of 2018 was primarily driven by a loss caused by widened differentials on propane sell-side commodity swap contracts taken by Parkland to mitigate commodity price risks on undelivered products, including products to be delivered in the winter. The commodity swap loss was partially offset by a gain recognized on the US Dollar Currency Swap taken to mitigate foreign currency risk related to the 6.00% US Senior Notes in a weaker Canadian dollar environment. 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 \$25 million unrealized loss on foreign exchange was primarily driven by the translation impact of the 6.00% US Senior Notes and the US-denominated Intermediation Facility in a weaker Canadian dollar environment. The foreign currency risk on the 6.00% US Senior Notes is mitigated by a US Dollar Currency Swap, which is recognized in unrealized gain on risk management and other derivatives.
- Income tax expense increased \$11 million due to higher taxable earnings.
- As a result of the above main drivers, net earnings for the first six months of 2018 were \$80 million compared to \$21 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 1,849 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 both differ and are similar to that of 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 as well as 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	141	69	90	161	119	1	11	592
Dealer sites	497	518	102	17	37	66	20	1,257
Site count, as at June 30, 2018	638	587	192	178	156	67	31	1,849
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	(1)	(1)	(2)	—	2	1	2	1

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 \$44 million to \$82 million for the second quarter of 2018 and grew \$88 million to \$151 million for the first six months of 2018 compared to the respective periods in the prior year primarily due to the Acquisitions. Furthermore, Parkland achieved its 10th consecutive quarter of positive Company C-Store SSSG and realized overall Company C-Store SSSG of 8.1% for the three months ended June 30, 2018 and 5.8% for the first half 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 June 30,				Six months ended June 30,			
	2018	2017	Change	%	2018	2017	Change	%
Fuel and petroleum product volume ⁽¹⁾ (million litres)	1,725	967	758	78 %	3,311	1,811	1,500	83%
Sales and operating revenue	1,860	799	1,061	133 %	3,394	1,481	1,913	129%
Fuel and petroleum product adjusted gross profit ⁽²⁾	138	56	82	146 %	263	100	163	163%
Non-fuel adjusted gross profit ⁽²⁾	40	14	26	186 %	75	27	48	178%
Adjusted gross profit ⁽²⁾	178	70	108	154 %	338	127	211	166%
Operating costs ⁽⁸⁾	82	25	57	228 %	158	50	108	216%
Marketing, general and administrative	14	7	7	100 %	29	14	15	107%
Adjusted EBITDA ⁽²⁾	82	38	44	116 %	151	63	88	140%
KPIs:								
Fuel and petroleum product adjusted gross profit ⁽²⁾ (cpl)	8.00	5.78	2.22	38 %	7.94	5.53	2.41	44%
Operating costs ⁽⁸⁾ (cpl)	4.75	2.70	2.05	76 %	4.77	2.81	1.96	70%
Marketing, general and administrative (cpl)	0.81	0.70	0.11	16 %	0.88	0.75	0.13	17%
Adjusted EBITDA ⁽²⁾ (cpl)	4.75	3.87	0.88	23 %	4.56	3.47	1.09	31%
Volume same-store sales growth ("SSSG") ⁽⁵⁾⁽⁶⁾	(1.8)%	(1.1)%	(0.7p.p.)		(0.2)%	0.3%	(0.5p.p.)	
Company C-Store same-store sales growth ("SSSG") ⁽⁵⁾	8.1 %	7.6 %	0.5p.p.		5.8 %	4.3%	1.5p.p.	
TTM net unit operating cost ("NUOC") ⁽⁵⁾ (cpl)	3.23	1.88	1.35	72 %				
Company sites:								
TTM volume ⁽⁴⁾⁽⁶⁾ (million litres)	2,789	1,790	999	56 %				
TTM weighted average number of active sites ⁽⁴⁾⁽⁷⁾	536	310	226	73 %				
TTM average volume per active site ⁽⁴⁾⁽⁶⁾ (million litres)	5.2	5.8	(0.6)	(10)%				
Dealer sites:								
TTM volume ⁽⁴⁾⁽⁶⁾ (million litres)	3,917	1,938	1,979	102 %				
TTM weighted average number of active sites ⁽⁴⁾⁽⁷⁾	1,259	753	506	67 %				
TTM average volume per active site ⁽⁴⁾⁽⁶⁾ (million litres)	3.1	2.6	0.5	19 %				

⁽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 (loss). Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q2 and Q2 YTD - 2018 vs. 2017

Fuel volumes increased 758 million litres for the second quarter of 2018 and 1,500 million litres for the first six months of 2018 primarily due to the Acquisitions. Although our overall market share remained stable year-over-year, Parkland experienced slight demand pressure as a result of higher street pump prices.

Sales and operating revenue increased \$1,061 million for the second quarter of 2018 and \$1,913 million for the first six 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 rents, car wash revenue, sales of select merchandise, and other ancillary sales. Fuel and petroleum product adjusted gross profit increased \$82 million for the second quarter of 2018 and \$163 million for the first six months of 2018 primarily due to the Acquisitions.

Non-fuel adjusted gross profit increased \$26 million for the second quarter and \$48 million for the first six months of 2018 largely due to the contribution of the Acquisitions as well as organic non-fuel adjusted gross profit growth. 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 \$57 million for the second quarter of 2018 and \$108 million for the first six months of 2018 mainly due to the Acquisitions. Parkland also experienced higher retail fuel commissions and higher variable credit card transaction fees, driven by higher street pump prices.

Marketing, general and administrative expenses in Retail include marketing, real estate, finance, operations, credit, network development and infrastructure expenses. Marketing, general and administrative expenses increased \$7 million for the second quarter of 2018 and \$15 million for the first six months of 2018, as expected, primarily due to the Acquisitions. Parkland also incurred additional expenses related to 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 38% for the second quarter of 2018 and 44% for the first six months of 2018 primarily due to the Acquisitions, which have a different operating model from 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 76% for the second quarter of 2018 and 70% for the first six 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 16% for the second quarter of 2018 and 17% for the first six months of 2018 primarily due to the Acquisitions, which have a different operating model 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 (1.8)% for the second quarter of 2018 compared to (1.1)% for the same period in 2017, and (0.2)% for the first six months of 2018 compared to 0.3% for the same period in 2017. Despite a drop in Volume SSSG, Parkland maintained consistent volume market share nationally.

Company C-Store SSSG improved to 8.1% for the second quarter of 2018, surpassing strong growth of 7.6% for the same period of 2017. Similarly, Company C-Store SSSG improved to 5.8% for the first half of 2018, compared to 4.3% for the same period in 2017. These increases, experienced in both western and 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 also saw growth in sustainable higher-margin categories such as beverages, snacks and confectionery.

NUOC was higher by 72% in the trailing twelve months ended June 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 10% for Company sites and increased 19% 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, Sparlings Propane, and others. 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 differ from that of 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.

Commercial segment performance highlights

Adjusted EBITDA increased \$13 million for the second quarter of 2018 and \$22 million for the first six months of 2018 compared to the respective periods in 2017, primarily due to the Acquisitions. The Commercial segment also saw strong results for the second quarter of 2018 driven by an increase in propane volumes from organic growth and customer wins as well as improved margins. For the first six months of 2018 the robust results for the second quarter of 2018 were partially offset by softer results in the first quarter of 2018, driven by lower margins as well as warmer-than-expected weather conditions in the Maritimes.

	Three months ended June 30,				Six months ended June 30,			
(\$ millions, unless otherwise noted)	2018	2017	Change	%	2018	2017	Change	%
Gas and diesel volume (million litres)	675	252	423	168 %	1,463	573	890	155 %
Propane volume (million litres)	76	67	9	13 %	232	200	32	16 %
Fuel and petroleum product volume ⁽¹⁾ (million litres)	751	319	432	135 %	1,695	773	922	119 %
Sales and operating revenue	717	271	446	165 %	1,532	634	898	142 %
Fuel and petroleum product adjusted gross profit ⁽²⁾	60	30	30	100 %	150	90	60	67 %
Non-fuel adjusted gross profit ⁽²⁾	14	14	—	— %	28	27	1	4 %
Adjusted gross profit ⁽²⁾	74	44	30	68 %	178	117	61	52 %
Operating costs ⁽⁵⁾	45	33	12	36 %	102	71	31	44 %
Marketing, general and administrative	11	6	5	83 %	20	12	8	67 %
Adjusted EBITDA ⁽²⁾	18	5	13	260 %	56	34	22	65 %
KPIs:								
Fuel and petroleum product adjusted gross profit ⁽²⁾ (cpl)	7.99	9.36	(1.37)	(15)%	8.85	11.59	(2.74)	(24)%
Operating costs ⁽⁵⁾ (cpl)	5.99	10.17	(4.18)	(41)%	6.02	9.12	(3.10)	(34)%
Marketing, general and administrative (cpl)	1.46	1.91	(0.45)	(24)%	1.18	1.59	(0.41)	(26)%
Adjusted EBITDA ⁽²⁾ (cpl)	2.40	1.72	0.68	40 %	3.30	4.40	(1.10)	(25)%
TTM operating ratio ⁽³⁾⁽⁴⁾	71.6%	74.1%	(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 (loss). Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q2 and Q2 YTD - 2018 vs. 2017

Fuel volumes increased 432 million litres for the second quarter of 2018 and 922 million litres for the first six months of 2018 primarily due to the Acquisitions. In addition, Parkland saw 13% and 16% propane volume growth for the three and six months ended June 30, 2018, driven by strong organic growth and large customer wins. The increase in gas and diesel volume for the second quarter of 2018 was also positively influenced by customer wins.

Sales and operating revenue increased \$446 million for the second quarter of 2018 and \$898 million for the first six months of 2018 primarily due to the Acquisitions and rising fuel and petroleum commodity prices. Furthermore, organic growth in propane volume also contributed to the increase.

Adjusted gross profit increased \$30 million for the second quarter of 2018 and \$61 million for the first six months of 2018 primarily due to the Acquisitions. In addition, adjusted gross profit benefited from stronger propane performance for both periods as well as improved gas and diesel performance in the second quarter 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 \$12 million for the second quarter of 2018 and \$31 million for the first six months of 2018 primarily due to the Acquisitions. Furthermore, Parkland experienced higher fuel delivery costs 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 increased \$5 million for the second quarter of 2018 and \$8 million

for the first six months of 2018 primarily due to the Acquisitions. Parkland continues to maintain a strong emphasis on cost management as the Acquisitions are integrated.

KPIs

Fuel and petroleum product adjusted gross profit on a cpl basis decreased 15% for the second quarter of 2018 and decreased 24% for the first six 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. Parkland also experienced stronger propane, gasoline and diesel margins in both periods.

Operating costs on a cpl basis decreased 41% for the second quarter of 2018 and decreased 34% for the first six months of 2018 primarily due to the Acquisitions, which have lower operating cost models, as discussed above. Parkland also saw the positive impact of successful cost control initiatives across the Commercial business as well as increased volumes from customer wins and organic growth in both periods.

Marketing, general and administrative expenses on a cpl basis decreased 24% for the second quarter of 2018 and decreased 26% for the first six months of 2018 primarily due to the Acquisitions, which have lower operating 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 74.1% to 71.6% primarily due to the impact of the different operating model 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 third-party 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 out of 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 of \$170 million for the second quarter of 2018 was approximately nine times that of the \$18 million achieved in the second quarter of 2017. In addition, Supply Adjusted EBITDA of \$241 million for the first half of 2018 was approximately six times that of the \$41 million achieved for the same period in 2017. These exceptional results were due to the impact of the Acquisitions and continued efforts in executing Parkland's supply strategy, aided by robust crack spreads. Increase in Supply Adjusted EBITDA for the first six 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. 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.

Parkland successfully completed the Burnaby Refinery Turnaround in the first week of April 2018. The duration of the Turnaround, which began in early February, was extended slightly primarily due to inclement weather in Burnaby during portions of the Turnaround and some out-of-scope discovery work. During the first six months of 2018, \$85 million of Turnaround costs were incurred, of which \$73 million was capitalized within maintenance capital expenditures and \$12 million was expensed within operating costs.

	Three months ended June 30,				Six months ended June 30,			
(\$ millions, unless otherwise noted)	2018	2017	Change	%	2018	2017	Change	%
Fuel and petroleum product volume ⁽¹⁾ (million litres)	1,480	1,052	428	41%	2,942	2,303	639	28%
Sales and operating revenue	979	549	430	78%	1,791	1,135	656	58%
Fuel and petroleum product adjusted gross profit ⁽²⁾	238	33	205	621%	385	77	308	400%
Non-fuel adjusted gross profit ⁽²⁾	4	3	1	33%	10	5	5	100%
Adjusted gross profit ⁽²⁾	242	36	206	572%	395	82	313	382%
Operating costs ⁽³⁾	56	8	48	600%	120	21	99	471%
Marketing, general and administrative	16	10	6	60%	34	20	14	70%
Adjusted EBITDA ⁽²⁾	170	18	152	844%	241	41	200	488%
KPI:								
Refinery utilization	90.9%				62.2%			

⁽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.

⁽³⁾ Operating costs were restated to conform to current year's presentation in the consolidated statements of income (loss). Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q2 and Q2 YTD - 2018 vs. 2017

Fuel volumes increased 428 million litres for the second quarter of 2018 and 639 million litres for the first six months of 2018 primarily due to the Chevron Acquisition. Crude, gasoline and diesel volumes also increased, driven by strategic initiatives to drive volume growth and scale.

Sales and operating revenue increased \$430 million for the second quarter of 2018 and \$656 million for the first six months of 2018 mainly due to the Chevron Acquisition and in part due to higher commodity prices and volume increases for crude, gasoline and diesel sales.

Adjusted gross profit increased \$206 million for the second quarter of 2018 and \$313 million for the first six months of 2018 primarily due to the Chevron Acquisition, aided by robust crack spreads, as well as significant progress made in optimizing our supply economics.

Operating costs increased \$48 million for the second quarter of 2018 and \$99 million for the first six months of 2018 primarily due to the Chevron Acquisition, including the 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 \$6 million for the second quarter of 2018 and \$14 million for the first six months of 2018 largely due to the Chevron Acquisition and 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 second quarter of 2018 was 90.9%, which includes refinery downtime for the completion of the Turnaround in the first week of April 2018, and was in line with Parkland's expectations.

Parkland USA

Overview

Parkland USA is an independent fuel marketer headquartered in Minot, North Dakota. Parkland USA supplies and distributes refined petroleum products throughout North Dakota, Montana, Minnesota, South Dakota and Wyoming. Parkland USA is a platform for growth in the northwest United States and provides Parkland export opportunities for products from western Canada. Additionally, this segment enhances supply capabilities by leveraging Parkland's rail assets. Brands in this segment include Farstad Oil and Superpumper. Refer to the Annual MD&A for a detailed overview of Parkland USA's brands and operations.

Parkland USA segment performance highlights

Adjusted EBITDA remained relatively consistent for the second quarter of 2018 as the team continues to focus on driving new business and maintaining organic growth throughout the segment. Adjusted EBITDA increased \$1 million for the first six months of 2018 primarily due to increased sales of winter-grade diesel and growth in the lubricants business in the first quarter of 2018.

Volume remained relatively consistent for the second quarter of 2018 and for the first six months of 2018. Despite the stable volumes, there was a \$40 million increase in sales and operating revenue for the second quarter of 2018 and \$67 million for the first six months of 2018 due to higher commodity and fuel prices. Operating costs remained consistent for the second quarter of 2018 and the six months ended June 30, 2018 and the TTM operating ratio improved from 74.4% to 74.2%. This reflects our commitment to successfully implement cost control measures while driving business growth.

	Three months ended June 30,				Six months ended June 30,			
(\$ millions, unless otherwise noted)	2018	2017	Change	%	2018	2017	Change	%
Retail volume (million litres)	38	34	4	12 %	70	65	5	8 %
Wholesale volume (million litres)	208	216	(8)	(4)%	395	392	3	1 %
Fuel and petroleum product volume ⁽¹⁾ (million litres)	246	250	(4)	(2)%	465	457	8	2 %
Sales and operating revenue	227	187	40	21 %	408	341	67	20 %
Fuel and petroleum product adjusted gross profit ⁽²⁾	9	9	—	— %	17	16	1	6 %
Non-fuel adjusted gross profit ⁽²⁾	9	9	—	— %	17	17	—	— %
Adjusted gross profit ⁽²⁾	18	18	—	— %	34	33	1	3 %
Operating costs ⁽⁵⁾	11	11	—	— %	21	21	—	— %
Marketing, general and administrative	2	2	—	— %	4	4	—	— %
Adjusted EBITDA ⁽²⁾	5	5	—	— %	9	8	1	13 %
KPIs:								
Fuel and petroleum product adjusted gross profit ⁽²⁾ (cpl)	3.66	3.31	0.35	11 %	3.66	3.43	0.23	7 %
Operating costs ⁽⁵⁾ (cpl)	4.47	4.15	0.32	8 %	4.52	4.55	(0.03)	(1)%
Marketing, general and administrative (cpl)	0.81	0.84	(0.03)	(4)%	0.86	0.85	0.01	1 %
Adjusted EBITDA ⁽²⁾ (cpl)	2.03	2.04	(0.01)	— %	1.94	1.77	0.17	10 %
TTM operating ratio ⁽³⁾⁽⁴⁾	74.2%	74.4% (0.2p.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 (loss). Specifically, customer finance income, which was formerly presented separately, is now included in operating costs.

Q2 and Q2 YTD - 2018 vs. 2017

Fuel volumes remained relatively consistent for the second quarter of 2018 and for the first six months of 2018, with retail volumes increasing due to retail sites added to the Parkland USA network as compared to the prior year. Wholesale volume was softer in the second quarter of 2018 due to colder weather in April causing a slower start in the agriculture sector.

Sales and operating revenue increased \$40 million for the second quarter of 2018 and \$67 million for the first six months of 2018 primarily as a result of rising fuel and petroleum commodity prices.

Adjusted gross profit remained relatively consistent for the second quarter of 2018 and for the first six months of 2018.

Operating costs are incurred at company-owned wholesale or lubricant branches and the 26 Superpumper retail sites. Expenses in this category include wages and benefits for employees, along with the costs associated with owning and maintaining the land, buildings and equipment such as rents, repairs and maintenance, environmental, utilities, insurance and property tax costs. Operating costs remained consistent for both periods as Parkland continues to implement effective cost control initiatives.

Marketing, general and administrative expenses are typically fixed in nature and do not vary with volume. Expenditures in this category include marketing, real estate, finance, operations, credit, network development and infrastructure. Marketing, general and administrative expenses for the second quarter of 2018 and for the first six months of 2018 were relatively consistent with the comparative period due to a continued focus on cost control while driving new business.

KPIs

Fuel and petroleum product adjusted gross profit on a cpl basis increased 11% for the second quarter of 2018 and 7% for the first six months of 2018 primarily due to stronger fuel margins.

Operating costs on a cpl basis increased 8% for the second quarter of 2018 primarily as a result of higher transportation costs and higher variable credit card transaction fees. Operating costs on a cpl basis decreased 1% for the first six months of 2018 due to cost control initiatives throughout the segment.

Marketing, general and administrative expenses on a cpl basis decreased 4% for the second quarter of 2018 primarily due to cost control initiatives and remained flat for the first six months of 2018.

The TTM operating ratio improved from 74.4% to 74.2% as a result of successful cost control initiatives.

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

	Three months ended June 30,				Six months ended June 30,			
(\$ millions, unless otherwise noted)	2018	2017	Change	%	2018	2017	Change	%
Marketing, general and administrative	27	12	15	125 %	53	22	31	141%
Adjusted EBITDA ⁽¹⁾	(26)	(12)	(14)	117 %	(55)	(22)	(33)	150%
Acquisition, integration and other costs	12	16	(4)	(25)%	29	24	5	21%
KPI:								
Corporate marketing, general and administrative expenses as a % of Parkland's adjusted gross profit	5.3%	7.6%	(2.3p.p.)		5.6%	6.4%	(0.8p.p.)	

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

Q2 and Q2 YTD - 2018 vs. 2017

Compared to the equivalent periods in the prior year, marketing, general and administrative expenses increased \$15 million for the second quarter of 2018 and \$31 million for the first six months of 2018 and corporate Adjusted EBITDA expense increased \$14 million for the second quarter of 2018 and \$33 million for the first six months of 2018, as expected, primarily due to additional corporate costs to support the larger integrated business.

On a consolidated basis, corporate marketing, general and administrative expenses as a percentage of Parkland's adjusted gross profit improved from 7.6% to 5.3% in the second quarter of 2018 and from 6.4% to 5.6% for the six months ended June 30, 2018 due to higher Parkland adjusted gross profit from the comparative period, partially offset by additional corporate costs to support the larger integrated business.

Acquisition, integration and other costs decreased from \$16 million to \$12 million from the second quarter of 2017 to 2018 primarily due to costs incurred in the second quarter of 2017 as part of the close of the Acquisitions that were not repeated in the second quarter of 2018. Acquisition, integration and other costs increased from \$24 million to \$29 million for the first six months of 2018, primarily due to costs incurred to integrate the Chevron and Ultramar Acquisitions and successfully exit their related TSAs in the first half of 2018.

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.

	June 30, 2018	June 30, 2017
TTM LTIF	0.28	0.22
TTM TRIF	1.95	3.12

5. QUARTERLY FINANCIAL DATA

(\$ millions, unless otherwise noted) For the three months ended	2018		2017				2016	
	Jun 30	Mar 31	Dec 31	Sep 30	June 30	Mar 31	Dec 31	Sep 30
Financial Summary								
Sales and operating revenue	3,783	3,342	3,369	2,600	1,806	1,785	1,740	1,638
Adjusted gross profit ⁽¹⁾	513	430	469	266	168	191	197	171
Adjusted EBITDA ⁽¹⁾								
Retail	82	69	94	74	38	25	33	41
Commercial	18	38	28	8	5	29	16	4
Supply	170	71	93	25	18	23	34	24
Parkland USA	5	4	4	4	5	3	4	4
Corporate	(26)	(29)	(21)	(15)	(12)	(10)	(10)	(13)
Consolidated	249	153	198	96	54	70	77	60
Net earnings (loss)	60	20	49	12	(1)	22	3	15
Per share – basic	0.45	0.15	0.37	0.10	(0.01)	0.23	0.03	0.15
Per share – diluted	0.45	0.15	0.37	0.10	(0.01)	0.22	0.03	0.15
Distributable cash flow ⁽²⁾	118	29	45	45	23	38	29	28
Per share ⁽²⁾⁽³⁾	0.89	0.22	0.33	0.35	0.20	0.40	0.30	0.29
Adjusted distributable cash flow ⁽²⁾	139	110	86	64	39	46	43	33
Per share ⁽²⁾⁽³⁾	1.05	0.84	0.64	0.50	0.35	0.48	0.45	0.35
Dividends	41	38	39	38	33	28	28	28
Dividends declared per share outstanding	0.2934	0.2902	0.2886	0.2886	0.2886	0.2852	0.2835	0.2835
Dividend payout ratio ⁽²⁾	35%	131%	89%	83%	146%	72%	94%	99%
Adjusted dividend payout ratio ⁽²⁾	29%	35%	46%	59%	84%	60%	64%	83%
Total assets	5,592	5,492	5,412	4,830	4,281	2,469	2,562	2,424
Shares outstanding (million shares)	132	132	131	131	130	97	96	96
Weighted average number of common shares (million shares)	132	131	131	131	111	96	96	96
Operating Summary								
Fuel and petroleum product volume (million litres)	4,202	4,211	4,432	3,557	2,588	2,756	2,783	2,659
Fuel and petroleum product adjusted gross profit ⁽¹⁾								
Retail (cpl)	8.00	7.88	8.95	7.10	5.78	5.25	5.39	5.69
Commercial (cpl)	7.99	9.53	8.29	6.71	9.36	13.16	11.47	8.64
Parkland USA (cpl)	3.66	3.65	3.48	2.97	3.31	3.58	3.62	3.26
Operating costs ⁽⁴⁾ (cpl)	4.62	4.92	4.50	3.40	3.00	3.11	2.93	2.79
Marketing, general and administrative (cpl)	1.67	1.66	1.62	1.37	1.41	1.28	1.39	1.38

⁽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 (loss). 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 growth through acquisitions and organic growth. In particular:

- Sales and operating revenue increased significantly over the last four 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.
- Supply Adjusted EBITDA was lower in the first quarter of 2018 compared to the second quarter of 2018 and fourth quarter of 2017 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 higher in the second quarter of 2018, driven by the impact of the Chevron Acquisition and continued efforts in executing Parkland's supply strategy, aided by robust crack spreads.
- Net earnings in the second quarter of 2018 were greater than the same period in 2017 due to higher Adjusted EBITDA, partially offset by increased depreciation and amortization, financing costs, income tax expense and unrealized foreign exchange loss, all largely attributable to the impact of the Acquisitions.

- Total assets increased significantly in the last six quarters due to the debt and equity financing raised for the Ultramar Acquisition and Chevron Acquisition that closed on June 28, 2017 and October 1, 2017, 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Adjusted EBITDA ⁽¹⁾	249	54	402	124
Amounts to reconcile Adjusted EBITDA to net earnings (loss) ⁽²⁾	(189)	(55)	(322)	(103)
Net earnings (loss)	60	(1)	80	21
Amounts to reconcile net earnings (loss) to cash generated from operating activities ⁽³⁾	31	33	104	51
Cash generated from operating activities	91	32	184	72
Reverse: Change in other liabilities and other long-term assets	7	—	13	(2)
Exclude: Change in other liabilities - Intermediation Facility Derivatives	(3)	—	(5)	—
Reverse: Net change in non-cash working capital	54	(2)	61	4
	149	30	253	74
Include: Maintenance capital expenditures	(31)	(9)	(107)	(16)
Include: Proceeds on asset sales and disposals	—	2	1	3
Distributable cash flow ⁽⁵⁾	118	23	147	61
Reverse: Acquisition, integration and other costs	12	16	29	24
Reverse: Turnaround maintenance capital expenditures	9	—	73	—
Adjusted distributable cash flow ⁽⁵⁾	139	39	249	85
Weighted average number of common shares	132	111	132	104
Distributable cash flow per share ⁽⁴⁾⁽⁵⁾	0.89	0.20	1.12	0.59
Reverse: Acquisition, integration and other costs	0.09	0.15	0.22	0.23
Reverse: Turnaround maintenance capital expenditures	0.07	—	0.55	—
Adjusted distributable cash flow per share ⁽⁴⁾⁽⁵⁾	1.05	0.35	1.89	0.82
Dividends	41	33	79	61
Dividend payout ratio ⁽⁵⁾	35 %	146 %	54 %	99 %
Reverse: Acquisition, integration and other costs	(3)%	(62)%	(9)%	(28)%
Reverse: Turnaround maintenance capital expenditures	(3)%	— %	(13)%	— %
Adjusted dividend payout ratio ⁽⁵⁾	29 %	84 %	32 %	71 %
Dividends paid to shareholders, net of dividend reinvestment plan	26	23	52	43

⁽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 primarily due to the increase in weighted average common shares outstanding of 104 million shares for the six months ended June 30, 2017 to 132 million shares for the six months ended June 30, 2018 as well as the \$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 June 22, 2018 was 34.4% (June 22, 2017 - 18.6%).

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

Q2 and Q2 YTD - 2018 vs. 2017

The dividend payout ratio improved by 111 percentage points to 35% for the second quarter of 2018 due to higher cash flow available for distribution in proportion to higher dividends declared. For the first six months of 2018, the dividend payout ratio improved by 45 percentage points to 54%. Distributable cash flow increased \$95 million for the second quarter of 2018 and \$86 million for the first six months of 2018 due to a \$195 million and \$278 million increase in Adjusted EBITDA, respectively, offset by higher maintenance capital expenditures primarily related to 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 \$100 million compared to the second quarter of 2017 and \$164 million compared to the six months ended June 30, 2017. The adjusted dividend payout ratio improved by 55 percentage points to 29% for the second quarter of 2018 and by 39 percentage points to 32% for the first six months of 2018. This was 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:

(\$ millions)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	2016	2018	2017	2016
Cash generated from operating activities ⁽¹⁾	91	32	100	184	72	128
Cash used in investing activities	(82)	(2,126)	(58)	(128)	(2,141)	(70)
Net cash generated (used) before financing activities	9	(2,094)	42	56	(2,069)	58
Cash generated from (used in) financing activities	33	2,072	(28)	(5)	2,039	(43)
Increase (decrease) in net cash	42	(22)	14	51	(30)	15
Net foreign exchange difference	—	—	1	—	—	1
Net cash, beginning of period	32	18	23	23	26	22
Net cash (indebtedness), end of period	74	(4)	38	74	(4)	38

⁽¹⁾ Cash generated from operating activities was \$100 million and \$128 million for the three and six months ended June 30, 2016 due to cash inflows driven by positive net change in non-cash working capital of \$62 million and \$54 million, respectively. The positive net change in non-cash working capital was primarily attributable to an increase in accounts payable and accrued liabilities during those periods.

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.

Q2 2018 vs. Q2 2017

Cash generated from operating activities was \$59 million higher for the second quarter of 2018 compared to the same period in 2017 primarily due to the \$195 million increase in Adjusted EBITDA generated from the Acquisitions, exceptional Supply results, and strong organic growth in the Commercial segment, which increased Parkland's operating cash flows. This was partially offset by: (i) \$16 million greater interest on long-term debt due to financing for the Acquisitions, and (ii) net change in non-cash working capital outflow of \$54 million in 2018, compared to an inflow of \$2 million generated in 2017. The net outflow in the second quarter of 2018 was primarily attributable to greater inventory and accounts receivable, partially offset by higher accounts payable, driven by increased volumes and higher commodity prices, which generally increase working capital requirements for Parkland.

Q2 2018 YTD vs. Q2 2017 YTD

Cash generated from operating activities was \$112 million higher in the first six months of 2018 compared to the same period in 2017 primarily due to the \$278 million increase in Adjusted EBITDA from the Acquisitions and organic growth, which increased Parkland's sustainable operating cash flows. This was partially offset by: (i) \$32 million greater interest on long-term debt due to financing for the Acquisitions, and (ii) net change in non-cash working capital outflow of \$61 million, compared to an outflow of \$4 million in 2017. The greater net outflow in the first half of 2018 was primarily attributable to greater inventories and accounts receivable, partially offset by higher accounts payable, driven by increased volumes and higher commodity prices resulting in increased working capital requirements for Parkland.

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.

Q2 2018 vs. Q2 2017

During the second quarter of 2018, investing activities used \$82 million of cash primarily due to \$67 million capital expenditures paid largely for the Turnaround and other maintenance projects at the Burnaby Refinery as well as maintenance and growth capital projects in the Retail segment. In addition, \$13 million was invested in the second quarter of 2018 on other long-term assets and long-term receivables. In contrast, the \$2,126 million used in investing activities in 2017 primarily related to the \$988 million paid to close the Ultramar Acquisition, \$1,049 million of cash reserved for the Chevron Acquisition, and a \$73 million deposit on the Chevron Acquisition, which are non-recurring.

Q2 2018 YTD vs. Q2 2017 YTD

During the six months ended June 30, 2018, investing activities used \$128 million of cash primarily due to \$139 million capital expenditures mainly for the Turnaround, other maintenance projects at the Burnaby Refinery, and Retail station construction, rebrands and refreshes. In addition \$14 million was invested on 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.

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.

Q2 2018 vs. Q2 2017

During the second quarter of 2018, financing activities generated \$33 million of cash, primarily attributable to a \$57 million increase in other liabilities related to the Intermediation Facility due to rising commodity prices to fund working capital for the Burnaby Refinery, offset by cash dividends paid of \$26 million. In contrast, during the second quarter of 2017, Parkland generated \$2,072 million of cash through proceeds on 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 \$3 million to \$26 million compared to the same period in 2017 due to increases in outstanding common shares and dividends paid per share. During the second quarter of 2018, Parkland paid a monthly dividend of \$0.0978 per share (2017 – \$0.0962 per share).

Q2 2018 YTD vs. Q2 2017 YTD

During the six months ended June 30, 2018, Parkland used \$5 million of cash in financing activities consisting of \$699 million for the repayment of the Credit Facility and \$52 million for payment of cash dividends. This was offset by \$718 million generated from the issuance of the 6.00% US Senior Notes and \$28 million from an increase in other liabilities related to the Intermediation Facility. In contrast, during the six months ended June 30, 2017, Parkland generated \$2,039 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 \$9 million to \$52 million due to increases in outstanding common shares and dividends paid per share. During the six months ended June 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 \$4,595 million as at June 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.

8. CAPITAL RESOURCES

Available sources of liquidity

Parkland's sources of liquidity as at June 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 proceeds from 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 to \$500. 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 for the Canadian Syndicated Facility and US\$50 for the US Syndicated Facility, less the value of letters of credit issued, and (ii) letters of credit to a maximum of \$200 and US\$25.

(\$ millions)	June 30, 2018	December 31, 2017
Cash and cash equivalents	74	23
Unused credit facilities	325	202
	399	225

As at June 30, 2018, Parkland had a negative working capital balance of \$34 million (December 31, 2017 – negative working capital balance of \$107 million), which is an expected result of the Intermediation Facility liability of \$329 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Growth Capital Expenditures				
Retail	11	2	18	3
Commercial	2	2	5	5
Supply	–	1	–	6
Parkland USA	–	–	–	–
Corporate	–	–	–	–
Growth Capital Expenditures	13	5	23	14
Maintenance Capital Expenditures				
Retail	7	2	9	3
Commercial	3	3	6	6
Supply	19	1	90	1
Parkland USA	1	1	1	2
Corporate	1	2	1	4
Maintenance Capital Expenditures	31	9	107	16
Additions to property, plant and equipment and intangible assets	44	14	130	30

During the three and six months ended June 30, 2018, Parkland's combined growth and maintenance capital expenditures increased \$30 million and \$100 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 June 30, 2018 were \$82 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 cash proceeds from 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 June 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	
			June 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	0.20	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	2.39	2.62
3. Interest coverage ratio	> 3.00	> 3.00	6.08	7.65

The Senior Funded Debt and Total Funded Debt to Credit Facility EBITDA ratios are well below the covenant restrictions of 3.50 and 4.50, 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

Parkland is exposed to a number of risk factors through the pursuit of strategic objectives and the nature of our operations, which are outlined in the "Risk Factors" section on the Annual MD&A and Annual Information Form. These risk factors have not changed materially since the dates of their publication.

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:

	Fair value as at June 30, 2018			Total
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Other derivatives				
Emission credits and allowances	–	28	–	28
Risk management and other derivatives - assets	–	28	–	28
Risk management derivatives				
Commodities swaps, forwards and futures contracts	–	(17)	–	(17)
US dollar forward contracts	–	(1)	–	(1)
Other derivatives				
Emission credits and allowances	–	(1)	–	(1)
Risk management and other derivatives - liabilities	–	(19)	–	(19)
Other derivatives included in other long-term assets				
US Dollar Currency Swap	–	6	–	6
Redemption Options	–	18	–	18
Other derivatives included in other long-term assets	–	24	–	24
Other derivatives included in other liabilities				
Intermediation Facility Derivatives	–	(4)	–	(4)

Impact on the consolidated balance sheets and consolidated statements of income (loss)

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 (loss) in finance costs. The fair value of the Redemption Options recorded in other long-term assets was \$18 million as at June 30, 2018 (December 31, 2017 – \$20 million). The change in fair value of the Redemption Options for the three and six months ended June 30, 2018 were losses of \$7 million and \$11 million, respectively (2017 - nil and nil).

Gains or losses relating to the Intermediation Facility Derivatives are recognized in the consolidated statements of income (loss) in cost of purchases. For the three and six months ended June 30, 2018, a realized loss of \$22 million and \$29 million respectively (2017 - nil and nil) and an unrealized gain of \$3 million and \$5 million respectively (2017 - nil and nil) relating to the Intermediation Facility Derivatives were included within cost of purchases on the consolidated statements of income (loss). The realized loss from the Intermediation Facility Derivatives are partially offset by higher adjusted gross profit generated in Supply as a result of robust crack spreads.

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 (loss) in gain on risk management and other derivatives. The fair values of the risk management and other derivatives - assets and liabilities as at June 30, 2018 were \$28 million and \$19 million respectively (December 31, 2017 – \$19 million and \$9 million). Risk management and other derivatives for the second quarter of 2018 and for the first six months of 2018 yielded a combined realized and unrealized gain of \$14 million and \$4 million, respectively (2017 - gain of \$2 million and \$6 million), and was driven by commodities swaps, the US Dollar Currency Swap, forward contracts as well as US dollar 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 June 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 a business acquired not more than 365 days before June 30, 2018, as Parkland closed 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 of the Chevron Acquisition that are included under the NI 52-109 scope limitation as at June 30, 2018 are summarized as follows: 1) current assets of \$475 million, 2) non-current assets of \$1,816 million, 3) current liabilities of \$540 million, 4) non-current liabilities of \$248 million, and 5) sales and operating revenue of \$1,510 million for the six months ended June 30, 2018. Net earnings that reflects 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.

Changes in internal controls over financial reporting

Other than as described above, there were no changes in Parkland's ICFR during the six months ended June 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 June 30, 2018, Parkland provided \$767 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 June 30, 2018, these guarantees amount to \$235 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 July 18, 2019.

Shares outstanding

As at August 2, 2018, Parkland had approximately 132 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 24 of the Annual Consolidated Financial Statements and 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, and (iv) changes in the fair value of the outstanding deferred share units liability. Adjusted EBITDA is calculated and reconciled from net earnings (loss) as follows:

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net earnings (loss)	60	(1)	80	21
Depreciation and amortization	76	24	145	50
Finance costs	40	14	81	28
Loss on asset disposals	23	1	23	1
Acquisition, integration and other costs	12	16	29	24
Loss (gain) on risk management and other derivatives – unrealized	–	–	5	(9)
Loss on foreign exchange – unrealized	31	–	25	1
Gain on Intermediation Facility Derivatives in cost of purchases – unrealized	(3)	–	(5)	–
Income tax expense	10	–	19	8
Adjusted EBITDA	249	54	402	124

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:

(\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales and operating revenue	3,783	1,806	7,125	3,591
Cost of purchases	(3,291)	(1,640)	(6,192)	(3,230)
Gain (loss) on risk management and other derivatives – realized	14	2	9	(3)
Gain on foreign exchange – realized	10	—	6	1
Reverse: Gain on Intermediation Facility Derivatives in cost of purchases – unrealized	(3)	—	(5)	—
Adjusted gross profit	513	168	943	359
Fuel and petroleum product adjusted gross profit	446	128	813	283
Non-fuel adjusted gross profit	67	40	130	76
Adjusted gross profit	513	168	943	359

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 breakeven 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	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:

- brand 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 June 30, 2018
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	
Adjusted EBITDA	96	198	153	249	696
Share incentive compensation	1	6	—	4	11
	97	204	153	253	707
Acquisition pro-forma adjustment ⁽¹⁾					136
Acquisition, integration and other costs adjustment ⁽²⁾					2
Credit Facility EBITDA					845

⁽¹⁾ Amounts for the trailing twelve months ended June 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 \$2 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)	June 30, 2018	December 31, 2017
Senior Funded Debt:		
Long-term debt – current portion	4	4
Long-term debt – non-current portion (excluding Senior Unsecured Notes)	200	822
Letters of credit and surety bonds ⁽¹⁾	41	37
Less: Cash and cash equivalents	(74)	(23)
Senior Funded Debt	171	840
Senior Unsecured Notes	1,845	1,188
Total Funded Debt	2,016	2,028
Credit Facility EBITDA	845	773
Senior Funded Debt to Credit Facility EBITDA ratio	0.20	1.09
Total Funded Debt to Credit Facility EBITDA ratio	2.39	2.62

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

Interest coverage ratio

For the trailing twelve months ended (\$ millions)	June 30, 2018	December 31, 2017
Credit Facility EBITDA	845	773
Interest ⁽¹⁾	139	102
Interest coverage ratio	6.08	7.65

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

NUOC

Retail

(\$ millions)	Three months ended				Trailing twelve months ended June 30, 2018
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	
Operating costs ⁽¹⁾	66	81	76	82	305
Marketing, general and administrative	12	15	15	14	56
Less: Non-fuel adjusted gross profit	(33)	(36)	(35)	(40)	(144)
	45	60	56	56	217
Fuel and petroleum product volume ⁽²⁾ (million litres)	1,667	1,731	1,586	1,725	6,709
NUOC ⁽¹⁾	2.68	3.49	3.53	3.25	3.23

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

⁽²⁾ Includes gasoline, diesel and propane volumes.

(\$ millions)	Three months ended				Trailing twelve months ended June 30, 2017
	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	
Operating costs ⁽¹⁾	25	25	25	25	100
Marketing, general and administrative	6	6	7	7	26
Less: Non-fuel adjusted gross profit	(14)	(15)	(13)	(14)	(56)
	17	16	19	18	70
Fuel and petroleum product volume ⁽²⁾ (million litres)	1,002	936	844	967	3,749
NUOC ⁽¹⁾	1.61	1.82	2.24	1.91	1.88

⁽¹⁾ Operating costs and NUOC were restated to conform to current year's presentation in the consolidated statements of income (loss). 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 June 30, 2018
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	
Operating costs ⁽¹⁾	37	50	57	45	189
Marketing, general and administrative	11	12	9	11	43
Adjusted gross profit	48	62	66	56	232
TTM operating ratio	56	90	104	74	324
					71.6%

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

(\$ millions)	Three months ended				Trailing twelve months ended June 30, 2017
	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	
Operating costs ⁽¹⁾	28	33	38	33	132
Marketing, general and administrative	6	6	6	6	24
Adjusted gross profit	34	39	44	39	156
TTM operating ratio ⁽¹⁾	38	55	73	44	210
					74.1%

⁽¹⁾ Operating costs and TTM operating ratio were restated to conform to current year's presentation in the consolidated statements of income (loss). 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 June 30, 2018
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	
Operating costs ⁽¹⁾	10	10	10	11	41
Marketing, general and administrative	1	3	2	2	8
Adjusted gross profit	11	13	12	13	49
TTM operating ratio	15	17	16	18	66
					74.2%

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

(\$ millions)	Three months ended				Trailing twelve months ended June 30, 2017
	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	
Operating costs ⁽¹⁾	10	10	10	11	41
Marketing, general and administrative	2	2	2	2	8
Adjusted gross profit	12	12	12	13	49
TTM operating ratio ⁽¹⁾	16	16	15	18	65
					74.4%

⁽¹⁾ Operating costs and the TTM operating ratio were restated to conform to current year's presentation in the consolidated statements of income (loss). 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Corporate marketing, general and administrative expenses	27	12	53	22
Parkland's adjusted gross profit	513	168	943	359
Corporate marketing, general and administrative expenses as a % of Parkland's adjusted gross profit	5.3%	7.6%	5.6%	6.4%

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. 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.

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.

For purposes of calculating Company C-Store SSSG for the three months ended June 30, 2018 and 2017, results of sites acquired under the Ultramar Acquisition are included for both periods. However, results of sites acquired under the Chevron Acquisition are excluded for both 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 months ended June 30, 2018 and 2017. However, results of sites acquired under the Chevron Acquisition are excluded for both periods, as comparable information is not available.

Measures calculated on a cents-per-litre basis

Certain financial measures are calculated on a cents-per-litre ("cpl") basis by dividing the financial measure by the relevant volume of the segment. These 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 units expressed as a percentage of the capacity of these units. A higher utilization generally allows for more efficient operations and lower costs per barrel. Parkland believes that this measure provides meaningful information to investors in evaluating the operational performance of the refinery.

Annual Synergies

Annual Synergies is a forward-looking estimate of improvements on Adjusted EBITDA driven by increases in adjusted gross profit and reductions in operating costs and marketing, general and administrative expenses that are expected to be realized from integrating the Acquisitions and other related initiatives. This estimate is stated as a comparison of the pre-acquisition performance of the Acquisitions to expected post-acquisition performance of the Acquisitions, presented as an annualized measure. This forward-looking estimate is based on the comparative analysis of organizational structures, level of spending, and contract structures, as well as expectations of synergies and cost reductions from the implementation of integration initiatives, increased purchasing power, and contract renegotiations, among other items. Changes to these assumptions and timing of implementation of initiatives can significantly impact Annual Synergies. See Section 14 of this MD&A.

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. These measures are calculated by multiplying the number of incidents by 200,000, divided by the total number of employee hours worked. 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. 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. Parkland believes these measures provide meaningful information on evaluating its performance in providing a safe working environment.

Glossary of terms

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 plans to continue the implementation of our newly refreshed On the Run / Marché Express store designs and expand the offerings of our private label brand, 59th Street Food Co. We also intend to maintain our ongoing focus on retaining existing customers and winning new customers in our various markets.

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 integrating the Acquisitions and driving synergies to create shareholder value. 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, with the final elements of the conversion and the related TSA exit expected to be complete in late 2018. As at June 30, 2018, Parkland has completed initiatives that are expected to result in Annual Synergies on the Acquisitions of approximately \$55 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.

Revised 2018 Guidance Range

As a result of the exceptional performance experienced in 2018 to date, we have raised our 2018 Adjusted EBITDA guidance to approximately \$775 million with an anticipated variance of up to 5% (the "Revised 2018 Guidance Range"). This represents an increase of \$125 million from the previous guidance of \$650 million with an anticipated variance of up to 5%. The Revised 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 robust refining margins.

The Revised 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. 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. Refer to Parkland's press release issued on August 2, 2018 on SEDAR at www.sedar.com for more information.

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 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 Revised 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.

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 integrate the Acquisitions 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;
- 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;
- effectiveness of Parkland's management systems and programs;
- factors and risks associated with retail pricing, margins and crack spreads;
- availability and pricing of petroleum product supply;
- volatility of crude oil prices;
- the competitive environment of our industry in Canada and the United States;
- environmental impact;
- risk of pending or future litigation;
- interest rate and foreign exchange rate fluctuations;
- potential undisclosed liabilities (including environmental) associated with the Acquisitions;
- 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.