



PARKLAND INCOME FUND

# *Third Quarter Report*

For the nine months ended September 30, 2006

## *President's Message*

Parkland's performance in the third quarter and year to date set records for sales volumes, gross margins and earnings. These results can be attributed to a number of factors. Upgrades to key locations, the success and expansion of the Esso Retail Branded Distributorship (RBD) program and the summer driving season contributed to a substantial increase in fuel volumes. The continued strength of the western Canadian economy helped drive demand from both branded and unbranded dealers. Fuel margins remained above historic levels, particularly at the wholesale level.

Parkland's strategy of creating unitholder value by focusing on the rigorous refinement of its retail portfolio, increasing revenue diversification through growth in non-fuel revenues, and continuing to build on its leadership position in the non-urban markets of western and northern Canada has continued to provide solid financial results, as evidenced by yet another record quarter for volume and EBITDA. As a result of the Company's continued strong performance, the company is pleased to announce an increase in monthly distributions to twenty-two (\$0.22) per unit from twenty cents (\$0.20).

One year after taking on the RBD program, the Company has been rewarded for its performance with an agreement to include more than 20 additional stations in British Columbia. The expansion of this program has commenced and is expected to be largely completed during the fourth quarter. Parkland believes this is confirmation of its ability to provide exceptional service in its traditional non-urban markets and looks forward to continued growth of this program.

During the quarter Parkland was pleased to announce the first step in its strategy to find alternative uses for its Bowden refinery. This consisted of the partial reactivation of the refinery through an agreement with INEOS Canada Partnership to upgrade fluids for oilfield drilling. Parkland is encouraged with this agreement and will continue to look for additional opportunities to generate positive earnings and cash flow at Bowden.

Parkland will continue to execute on its current strategy while assessing acquisitions, alliances and other growth opportunities with the aim of adding accretive cash flow and unitholder value.

## Outlook

Parkland maintains a positive outlook for the fourth quarter of 2006 with fuel volumes expected to experience normal seasonal declines now that the busy summer driving season has ended.

The Fund will continue to execute on its current strategy and expects to introduce four to six new or refurbished Fas Gas Plus sites over the next three months and 15 to 20 new RBD stations in British Columbia. The RBD stations and increases in non-fuel and refinery revenue are expected to provide continued incremental earnings.

With respect to fuel margins, management has historically made no attempt to give guidance in this area. Fuel margins are inherently volatile and are influenced by supply and demand factors both within Parkland's regional market and the broader North American market. Gross margins on transportation fuels have exceeded historic norms for the last four quarters and there is no certainty as to how long these levels of gross margins will be sustained.

## Consolidated Operating and Financial Highlights

(\$000s except volume and per unit amounts)	For the three months ended September 30,			For the nine months ended September 30,		
	2006	2005	2004	2006	2005	2004
Fuel volumes (millions of litres)	<b>412</b>	322	303	<b>1,115</b>	880	843
Net sales and operating revenue	<b>\$ 359.3</b>	\$ 258.9	\$ 197.2	<b>\$ 921.0</b>	\$ 644.2	\$ 517.7
EBITDA	<b>\$ 27.7</b>	\$ 12.5	\$ 8.1	<b>\$ 60.2</b>	\$ 25.2	\$ 26.2
Net earnings	<b>\$ 16.7</b>	\$ 9.6	\$ 5.8	<b>\$ 44.2</b>	\$ 17.4	\$ 19.1
Per unit – basic	<b>\$ 1.34</b>	\$ 0.78	\$ 0.47	<b>\$ 3.55</b>	\$ 1.41	\$ 1.57
Per unit – diluted	<b>\$ 1.34</b>	\$ 0.78	\$ 0.47	<b>\$ 3.54</b>	\$ 1.41	\$ 1.56

## *Management's Discussion & Analysis*

The following discussion and analysis of the results of operations and financial condition of Parkland Income Fund should be read in conjunction with the unaudited interim financial statements for the nine month period ended September 30, 2006, Management's Discussion and Analysis for the year ended December 31, 2005 and the Fund's Annual Information Form dated March 19, 2006.

### **Three Months Ended September 30, 2006**

Higher fuel volumes, higher average fuel margins and increased convenience store sales and margins all contributed to higher gross margins in the quarter. EBITDA increased by \$15.2 million or 122% over 2005. Net earnings were \$16.7 million, a 74% increase over the \$9.6 million reported in 2005.

#### *Fuel Volumes*

Gasoline and diesel volumes increased by 90 million litres in the third quarter of 2006 to 412 million litres, an increase of 28%. This substantial increase in fuel volume was due in large part to the RBD program now in operation. Additionally, the performance of Parkland's upgraded stations combined with the summer driving season produced higher retail, dealer and reseller volumes.

#### *Sales and Cost of Sales*

Sales for the quarter ended September 30, 2006 were \$359.3 million, an increase of 38.8% or \$100.4 million over the same quarter in 2005. Fuel sales revenue increased to \$342.8 million from \$246.5 million in the prior year, an increase of 39%, as a result of volume increases as explained above and higher average crude prices. Convenience store merchandise sales also increased with sales of \$16.5 million in 2006 as compared to \$12.5 million in 2005, an increase of 32%. Convenience store merchandise sales were up as a result of strong marketing programs throughout the summer and the introduction and roll-out of Parkland's Bello branded coffee program.

Fuel cost of sales increased to \$300.8 million in 2006 as compared to \$221.9 million in 2005. Similar to sales revenue, cost of sales increased as a result of higher volumes and higher average per litre costs of fuel products. Convenience store merchandise cost of sales increased to \$12.1 million in 2006 from \$9.3 million in 2005, consistent with the increase in merchandise sales.

#### *Gross Margins*

The above noted factors led to aggregate gross margins of \$46.4 million or 12.9% of sales in the third quarter of 2006, which was \$18.7 million higher than the \$27.7 million (10.7% of sales) achieved in the same period in 2005. The largest single contribution to the increase was average fuel margins rising to 9.7 cents per litre compared to 7.0 cents per litre in the third quarter of 2005. The gross margin on convenience store merchandise sales increased to 26.6% in 2006 from 25.4% in the same quarter of 2005.

#### *Operating Expenses*

Operating and direct costs increased as seven Fas Gas stations were converted to company-operated sites. Site operating costs are sensitive to changes in fuel volume sales and, as a result, total costs were higher than the prior year.

Marketing, general and administrative expenses were \$5.8 million for the quarter ended September 30, 2006 compared to \$4.3 million in 2005. The higher costs in 2006 are due in part to increases of staffing levels required for increased sales volume, higher labor costs that are being experienced throughout western Canada and consulting and professional fees related to special projects and studies.

#### *Income Tax*

As at September 30, 2006 taxable income is significantly greater than distributions made to unitholders to date. Based on the current rate of monthly distributions, it is expected that taxable income will remain greater than unitholder distributions at year end.

Current taxes payable would be reduced by additional distributions that could be paid prior to December 31, 2006 in line with the practice in 2005. Decisions as to monthly or special distributions will be made by the Board of Directors in the normal course.

#### *Earnings*

Net earnings were \$16.7 million in the third quarter of 2006 compared to \$9.6 million in the same period of 2005, an increase of 74%. The increase resulted primarily from the increase in gross margins and fuel volumes as explained above and offset in part by increased operating costs, marketing, general and administrative expenses and current taxes. The same factors resulted in funds flow from operations increasing to \$19.0 million compared to \$12.0 million in 2005.

#### *Capital Investments*

During the third quarter the Fund expended \$2.7 million net in capital investments, of which \$1.7 million was classified as maintenance capital and \$1.0 million was classified as growth capital. The classification of capital as growth or maintenance is a subjective determination by management as many of the Fund's capital projects have components of both. It is the Fund's policy to treat all capital related to service station upgrades (i.e. Fas Gas Plus) as maintenance capital even though it includes the expectation of a financial return, while the construction of a new building on an existing site is considered growth capital. Amortization for the quarter was \$2.1 million compared to \$2.2 million in 2005.

#### *Long-Term Debt*

For the quarter ended September 30, 2006 interest on long-term debt was \$218,000. Approximately 76% of the Fund's long-term debt bears interest at variable rates linked to prime. Parkland has available a \$32 million bank line of credit of which approximately \$26 million is taken up by letters of credit outstanding to major suppliers and fuel tax authorities. The credit facility is secured by fixed and floating charges on all of Parkland's assets except those specifically pledged to other real estate lenders. The covenants relating to this facility provide for margin limits on accounts receivable and inventory values. The covenants also require that total debt to tangible net worth not exceed 1.75 to 1, that the current assets to current liabilities ratio be not less than 0.80 to 1, and that debt service coverage be not less than 1.2 to 1 on a rolling four quarter basis. Parkland is in compliance with all covenant terms.

During the quarter ended September 30, 2006 Parkland decreased its long-term debt by \$1.2 million as a result of normal repayment terms. At September 30, 2006 Parkland had \$7.2 million in long-term debt excluding current portions. Management believes that cash generated from operations will be adequate to fund maintenance capital, interest and targeted distributions for 2006. Parkland's long-term debt was a conservative 0.10 times trailing 12 months EBITDA of \$71.2 million.

*Cash Balance*

The cash balance at September 30, 2006 of \$67.3 million increased from the December 31, 2005 balance of \$8.3 million as a result of very strong cash flow for the nine month period driven by significant sales volume and earnings growth. In addition, a single supplier payment of \$27.5 million was made on October 2nd due to September 30th falling on a weekend. If September 30th had not fallen on a weekend this payment would have been made as at September 30th and both cash and accounts payable would have been reduced by the same amount. Adjusted cash and accounts payable at September 30, 2006 would therefore have been \$39.8 million and \$60.7 million respectively.

The financial statements include accounting estimates, the nature of which is described in the 2005 Annual Report. There were no transactions with related parties during the three months ended September 30, 2006.

**Nine Months Ended September 30, 2006**

For the nine month period ended September 30, 2006, sales volumes of refined products totaled 1.115 billion litres, an increase of 235 million litres or 26.7% over the same period in 2005. This significant volume increase was driven by the new RBD program as well as organic growth in both wholesale and retail volumes.

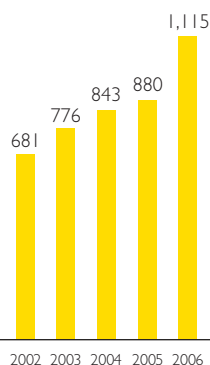
Sales of \$921.0 million for the nine month period ended September 30, 2006 increased by \$276.8 million or 43% through higher volume, higher crude oil prices and higher merchandise sales from our convenience store operations. Gross margins were \$109.0 million compared to \$65.1 million in 2005, an increase of 67% year-over-year. Gross margin percentage of 11.8% also increased from 10.1%.

Operating and direct costs increased to \$35.0 million from \$29.7 million in 2005, a 17.8% increase, largely as a result of the new RBD program and a higher number of company-operated stations.

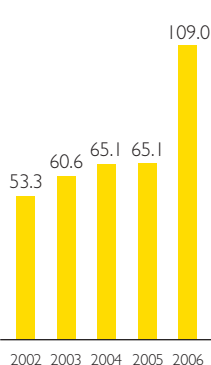
Marketing, general and administrative expenses increased to \$13.9 million from \$10.2 million in 2005, a 36.3% increase. The higher costs in 2006 are due in part to increases of staffing levels required due to increased sales volume, higher labor costs that are being experienced throughout western Canada and consulting and professional fees related to special projects and studies.

These factors contributed to an increase in EBITDA to \$60.2 million as compared to \$25.2 million in the first nine months of 2005. The increase in EBITDA of \$35.0 million for the nine month period ended September 30, 2006 represents a 138.9% increase over the same period last year.

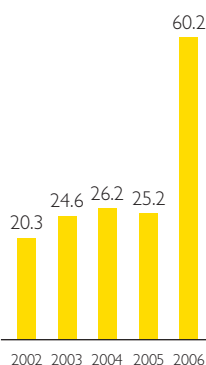
**Sales Volumes**  
(millions of litres)  
For the nine months  
ended September 30



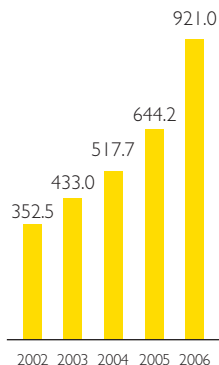
**Gross Margin**  
(\$ millions)  
For the nine months  
ended September 30



**EBITDA**  
(\$ millions)  
For the nine months  
ended September 30



**Sales Revenue**  
(\$ millions)  
For the nine months  
ended September 30



## Distributions

The Fund makes monthly distribution payments to its unitholders. The monthly payment per unit was increased to \$0.17 on November 15, 2005, to \$0.18 on June 15, 2006, to \$0.20 on September 15, 2006 and to \$0.22 effective December 15, 2006. Total distributions for the year are estimated to be \$27.5 million.

## Cash Available for Distribution

(\$000s)	For the three months ended September 30, 2006	For the nine months ended September 30, 2006
Cash from operating activities	\$ 51,336	\$ 88,956
Net changes in non-cash working capital	(32,318)	(37,754)
Funds flow from operations	19,018	51,202
Add back (deduct):		
Interest on long-term debt	218	710
Unit incentive compensation	(101)	(242)
Accretion expense	(15)	(45)
Asset retirement obligation expenditures	40	40
Current taxes	8,523	8,561
EBITDA	27,683	60,226
Maintenance capital expended	(1,730)	(4,563)
Current taxes and interest	(8,741)	(9,271)
Cash available for distribution	\$ 17,212	\$ 46,392
Cash distributed	\$ 7,223	\$ 20,133

The Directors review distributions quarterly giving consideration to current performance, historical and future trends in the business and the expected sustainability of those trends, as well as maintenance capital requirements to sustain performance.

This report contains references to certain financial measures that do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to similar measures presented by other companies or trusts. These measures are provided to assist investors in determining the Fund's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. These financial measures are identified and defined below:

- "EBITDA" means earnings before Interest Expense, Income Taxes, Depreciation and Amortization.
- "Growth Capital Expenditures" include amounts incurred to add new facilities or services.
- "Maintenance Capital Expended" refers to capital expenditures required to maintain existing levels of service and includes the cost of refurbishment of existing assets.
- "Cash Available for Distribution" is defined in the Fund's Trust Deed and is calculated as EBITDA, less maintenance capital expenditures, current taxes and interest.
- "Funds Flow From Operations" is cash from operating activities plus/minus changes in non-cash working capital related to operating activities.

The consolidated statement of earnings has been changed to separate the major components of the amounts previously reported as “Marketing, General and Administrative” expense. The amounts are now reported as “Operating and Direct Costs” expense which includes all expenses directly related to the operation of our retail sites and “Marketing, General and Administrative” expense which includes the costs of marketing, administration and corporate overhead.

### Distribution Reinvestment Plan

Parkland Income Fund has established a Distribution Reinvestment Plan administered by Valiant Trust Company. Details are available from the Fund or from Valiant Trust Company.

### Fund Description

Parkland Income Fund operates retail and wholesale fuels and convenience store businesses under its Fas Gas Plus, Fas Gas, Race Trac Fuels and Short Stop Food Stores brands and through independent branded dealers, and transports fuel through its Petrohaul division. With over 550 locations, Parkland has developed a strong market niche in western and northern Canadian non-urban markets. To maximize value for its unitholders, the Fund is focused on the continuous refinement of its retail portfolio, increased revenue diversification through growth in non-fuel revenues and active supply chain management. Parkland maintains ownership of the Bowden refinery near Red Deer, Alberta and is currently re-activating the site for production of fluids for drilling.

The Fund is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta. The Fund, together with the limited partnership that issued the exchangeable LP Units, own, indirectly, securities which collectively represent the right to receive cash flow available for distribution from the business formerly operated as Parkland Industries Ltd., after current taxes, debt service payments, maintenance capital expenditures and other cash requirements.

The Fund’s units trade on the Toronto Stock Exchange (TSX) under the symbol PKI.UN. For more information, visit [www.parkland.ca](http://www.parkland.ca).

### Quarterly Financial Information

For the three months ended (\$000s except volume and per unit amounts)	2004			2005			2006	
	Dec 31	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30
Fuel volumes (millions of litres)	258	268	290	322	297	329	374	<b>412</b>
Net sales and operating revenue	\$ 168,929	\$ 177,081	\$ 208,177	\$ 258,901	\$ 231,380	\$ 241,552	\$ 320,166	<b>\$ 359,272</b>
Net earnings	\$ (15,135)	\$ 824	\$ 6,948	\$ 9,634	\$ 7,563	\$ 5,566	\$ 21,889	<b>\$ 16,735</b>
EBITDA	\$ 4,324	\$ 3,243	\$ 9,424	\$ 12,546	\$ 11,488	\$ 8,186	\$ 24,357	<b>\$ 27,683</b>
Earnings per unit – basic	\$ (1.24)	\$ 0.07	\$ 0.56	\$ 0.78	\$ 0.62	\$ 0.45	\$ 1.76	<b>\$ 1.34</b>
Earnings per unit – diluted	\$ (1.24)	\$ 0.07	\$ 0.56	\$ 0.78	\$ 0.61	\$ 0.45	\$ 1.75	<b>\$ 1.34</b>

## Contractual Obligations

The Fund has contracted obligations under various debt agreements as well as under operating and capital leases for land, building and equipment. Minimum lease and principal payments (\$000s) under the existing terms are as follows:

For the year ending September 30	Mortgages, bank loans and notes payable	Operating leases	Capital leases
2007	\$ 2,261	\$ 1,469	\$ 3,401
2008	3,034	1,074	353
2009	1,520	545	119
2010	876	193	239
2011	197	116	38
Thereafter	–	491	855
	\$ 7,888	\$ 3,888	\$ 5,005

The Fund also has purchase commitments under its fuel supply contracts that require the purchase of approximately 1.3 billion litres of product over the next year.

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



Michael W. Chorlton  
President and CEO  
October 31, 2006

## *Consolidated Balance Sheet*

(\$000s) (Unaudited)	September 30, 2006	December 31, 2005
<i>Assets</i>		
Current Assets		
Cash and cash equivalents	\$ 67,296	\$ 8,290
Accounts receivable	38,161	34,253
Inventories	20,048	18,962
Prepaid expenses	1,389	1,570
	<b>126,894</b>	63,075
Other	1,474	1,859
Capital assets	68,289	66,454
Future income taxes	1,491	1,631
	<b>\$ 198,148</b>	\$ 133,019
<i>Liabilities</i>		
Current Liabilities		
Accounts payable	\$ 88,216	\$ 53,011
Income tax payable (Note 2)	8,500	1,138
Long-term debt - current portion	5,672	6,862
	<b>102,388</b>	61,011
Long-term debt	7,221	9,749
Asset retirement obligations	1,125	1,120
Refinery closure accrual	3,038	3,038
	<b>\$ 113,772</b>	\$ 74,918
<i>Unitholders' Capital (Note 1)</i>		
Class B Limited Partners' Capital	\$ 17,306	\$ 13,055
Unitholders' Capital	67,070	45,046
	<b>84,376</b>	58,101
	<b>\$ 198,148</b>	\$ 133,019

## *Consolidated Statement of Earnings and Retained Earnings*

(\$000s except per unit amounts) (Unaudited)	For the three months ended September 30,			For the nine months ended September 30,		
	2006	2005	2004	2006	2005	2004
Net sales and operating revenue	<b>\$ 359,272</b>	\$ 258,901	\$ 197,193	<b>\$ 920,990</b>	\$ 644,159	\$ 517,729
Cost of sales and operating expenses	<b>312,922</b>	231,185	176,383	<b>811,942</b>	579,047	452,591
Gross margin	<b>46,350</b>	27,716	20,810	<b>109,048</b>	65,112	65,138
Expenses						
Operating and direct costs	<b>12,892</b>	10,875	9,578	<b>34,958</b>	29,729	27,605
Marketing, general and administrative	<b>5,775</b>	4,295	3,084	<b>13,864</b>	10,170	11,328
Amortization	<b>2,114</b>	2,193	2,295	<b>6,625</b>	6,405	6,690
Interest on long-term debt	<b>218</b>	210	186	<b>710</b>	624	612
	<b>20,999</b>	17,573	15,143	<b>56,157</b>	46,928	46,235
Earnings before income taxes	<b>25,351</b>	10,143	5,667	<b>52,891</b>	18,184	18,903
Income taxes						
Current	<b>8,523</b>	433	(142)	<b>8,561</b>	592	(103)
Future	<b>93</b>	76	40	<b>140</b>	186	(89)
	<b>8,616</b>	509	(102)	<b>8,701</b>	778	(192)
Net earnings	<b>16,735</b>	9,634	5,769	<b>44,190</b>	17,406	19,095
Retained earnings, beginning of period	-	-	-	-	-	-
Allocation to Class B						
Limited Partners	<b>(3,891)</b>	(2,698)	(2,296)	<b>(10,319)</b>	(5,074)	(7,946)
Allocation to Unitholders	<b>(12,844)</b>	(6,936)	(3,473)	<b>(33,871)</b>	(12,332)	(11,149)
Retained earnings, end of period	<b>\$ -</b>	\$ -	\$ -	<b>\$ -</b>	\$ -	\$ -
Net earnings per unit						
– basic	<b>\$ 1.34</b>	\$ 0.78	\$ 0.47	<b>\$ 3.55</b>	\$ 1.41	\$ 1.57
– diluted	<b>\$ 1.34</b>	\$ 0.78	\$ 0.47	<b>\$ 3.54</b>	\$ 1.41	\$ 1.56

## Consolidated Statement of Cash Flows

(\$000s) (Unaudited)	For the three months ended September 30,			For the nine months ended September 30,		
	2006	2005	2004	2006	2005	2004
<i>Cash Provided By Operations</i>						
Net earnings	\$ 16,735	\$ 9,634	\$ 5,769	\$ 44,190	\$ 17,406	\$ 19,095
Add (deduct) non-cash items						
Amortization	2,114	2,193	2,295	6,625	6,405	6,690
Unit incentive compensation (Note 1)	101	45	25	242	133	73
Asset retirement obligation expenditures	(40)	–	–	(40)	–	–
Accretion expense	15	16	15	45	46	45
Future taxes	93	76	40	140	186	(89)
Funds flow from operations	19,018	11,964	8,144	51,202	24,176	25,814
Net changes in non-cash working capital	32,318	(3,746)	653	37,754	(775)	3,384
Cash from operating activities	51,336	8,218	8,797	88,956	23,401	29,198
<i>Financing Activities</i>						
Proceeds from long-term debt	–	–	299	–	158	2,362
Long-term debt repayments	(1,170)	(1,070)	(1,231)	(3,718)	(3,298)	(3,518)
Distributions to Class B Limited Partners	(1,656)	(1,553)	(2,151)	(4,681)	(5,044)	(6,483)
Distributions to Unitholders	(5,567)	(3,995)	(3,210)	(15,452)	(11,549)	(9,096)
Fund units issued	313	386	351	1,976	1,592	915
Cash used for financing activities	(8,080)	(6,232)	(5,942)	(21,875)	(18,141)	(15,820)
<i>Investing Activities</i>						
Recovery in other assets	108	147	230	385	109	713
Refinery closure expenditures	–	(33)	–	–	(76)	–
Purchase of capital assets	(3,513)	(2,083)	(3,328)	(9,734)	(3,970)	(9,460)
Proceeds on sale of capital assets	833	169	879	1,274	250	1,841
Cash used for investing activities	(2,572)	(1,800)	(2,219)	(8,075)	(3,687)	(6,906)
Increase in cash	40,684	186	636	59,006	1,573	6,472
Cash and cash equivalents, beginning of period	26,612	6,673	8,553	8,290	5,286	2,717
Cash and cash equivalents, end of period	\$ 67,296	\$ 6,859	\$ 9,189	\$ 67,296	\$ 6,859	\$ 9,189
Cash interest paid	\$ 218	\$ 210	\$ 186	\$ 710	\$ 624	\$ 612
Cash taxes paid (recovered)	\$ 23	\$ 433	\$ (142)	\$ 1,199	\$ 592	\$ (103)

# Notes to Consolidated Financial Statements

## Significant Accounting Policies

The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the most recent annual financial statements dated December 31, 2005. These financial statements should be read in conjunction with the annual financial statements and notes.

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

## 1. Unitholders' Capital

	Nine months ended September 30, 2006		Year ended December 31, 2005	
	Units (000s)	(\$000s)	Units (000s)	(\$000s)
<b>Class B Limited Partnership Units</b>				
Balance, beginning of period	2,908	\$ 13,055	4,307	\$ 18,833
Allocation of retained earnings	–	10,319	–	6,859
Distribution to partners	–	(4,681)	–	(6,761)
Exchanged for Fund units	(53)	(1,387)	(1,399)	(5,876)
Balance, end of period	2,855	\$ 17,306	2,908	\$ 13,055
<b>Fund Units</b>				
Balance, beginning of period	9,430	\$ 45,046	7,914	\$ 36,191
Allocation of retained earnings	–	33,871	–	18,110
Unit incentive compensation	–	242	–	181
Issued under distribution reinvestment plan	19	432	32	661
Issued under unit option plan	99	1,544	85	1,138
Distribution to unitholders	–	(15,452)	–	(17,111)
Exchange of Limited Partnership units	53	1,387	1,399	5,876
Balance, end of period	9,601	\$ 67,070	9,430	\$ 45,046
	12,456	\$ 84,376	12,338	\$ 58,101

## Unit Option Plan

The table below represents the status of the Fund's Unit Options Plan as at September 30, 2006 and the changes therein for the period then ended:

	Nine months ended September 30, 2006		Year ended December 31, 2005	
	Number of Options Units (000s)	Weighted Average Exercise Price	Number of Options Units (000s)	Weighted Average Exercise Price
Balance, beginning of period	550	\$ 18.09	438	\$ 15.26
Granted	-	-	280	21.38
Cancelled	(28)	21.03	(83)	19.02
Exercised	(99)	15.55	(85)	13.45
Balance, end of period	423	\$ 18.49	550	\$ 18.09
Exercisable options, end of period	271	\$ 16.75	129	\$ 15.28

Exercise prices for outstanding options at September 30, 2006 have the following ranges: 104,301 from \$12.45 - \$15.71, 115,337 from \$17.62 - \$18.97 and 203,001 from \$20.05 - \$21.80. These issue prices represent the market value at the time of issue. The corresponding remaining contractual life for these options range from 6 - 10 years. The Fund accounts for its grants of options using the fair value based method of accounting for stock based compensation. The total cost to be reported is \$530,710. The compensation cost that has been charged against income for the nine months ended September 30, 2006 is \$123,790 (September 30, 2005 - \$132,677).

## Restricted Unit Plan

Effective January 1, 2006, the Fund adopted a Restricted Units Plan to complement the Option Plan and Unit Distribution Rights Plan. Under the Plan the units vest over a five-year period and are subject to entity performance criteria. Details of the Plan are set out in the Notice of Annual and Special Meeting of Unitholders dated March 19, 2006. The table below represents the status of the Fund's Restricted Unit Plan as at September 30, 2006 and the changes therein for the period then ended:

	Number of Units	Weighted Average Unit Price
<b>Nine months ended September 30, 2006</b>		
Balance, beginning of period	-	\$ -
Granted	46,045	19.80
Cancelled	(2,435)	19.65
Balance, end of period	43,610	\$ 19.81

The Fund accounts for its grants of restricted units over the vesting period of each grant. The total cost to be reported is \$864,066. The compensation cost that has been charged against income is \$117,686.

## 2. Income Tax

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. Income earned in the Fund and distributed to the Fund unitholders is taxed directly to the Fund unitholders. Income earned directly by the Limited Partnership is not subject to income taxes as its income is taxed directly to the Limited Partnership unitholders.

As at September 30, 2006 taxable income is significantly greater than distributions made to unitholders to date. Based on the current rate of monthly distributions, it is expected that taxable income will remain greater than unitholder distributions at year end.

It is estimated that current taxes will be payable by taxable entities controlled by the Fund based on the current level of distributions. At an effective tax rate of 32%, the estimated current tax payable at September 30, 2006 is approximately \$8.5 million.

Current taxes payable would be reduced by additional distributions that could be paid prior to December 31, 2006 in line with the practice in 2005. Decisions as to monthly or special distributions will be made by the Board of Directors in the normal course.

## 3. Segmented Information

The Fund's operations are predominantly in fuel marketing in western Canada. In recent years the Fund initiated operations in the convenience store industry. The convenience stores have been integrated into fuel marketing properties already owned by the Fund and all continue to market transportation fuels. Due to the amount of common operating and property costs it is not practical to report these segments below their respective gross margins.

(\$000s) (Unaudited)	For the three months ended September 30			For the nine months ended September 30		
	Fuel Marketing	Merchandise	Total	Fuel Marketing	Merchandise	Total
<b>September 30, 2006</b>						
Net sales and operating revenue	\$ 342,785	\$ 16,487	\$ 359,272	\$ 876,545	\$ 44,445	\$ 920,990
Cost of sales	300,822	12,100	312,922	779,171	32,771	811,942
Gross margin	\$ 41,963	\$ 4,387	\$ 46,350	\$ 97,374	\$ 11,674	\$ 109,048
<b>September 30, 2005</b>						
Net sales and operating revenue	\$ 246,445	\$ 12,456	\$ 258,901	\$ 610,729	\$ 33,430	\$ 644,159
Cost of sales	221,897	9,288	231,185	554,450	24,597	579,047
Gross margin	\$ 24,548	\$ 3,168	\$ 27,716	\$ 56,279	\$ 8,833	\$ 65,112
<b>September 30, 2004</b>						
Net sales and operating revenue	\$ 186,553	\$ 10,640	\$ 197,193	\$ 489,725	\$ 28,004	\$ 517,729
Cost of sales	168,537	7,846	176,383	431,827	20,764	452,591
Gross margin	\$ 18,016	\$ 2,794	\$ 20,810	\$ 57,898	\$ 7,240	\$ 65,138

The segregation of capital expenditures and total assets is not practical as the reportable segments operate from the same locations.

## Supplementary Information

	For the three months ended September 30			For the nine months ended September 30		
	2006	2005	2004	2006	2005	2004
Volume (millions of litres)						
Retail	<b>142</b>	133	130	<b>390</b>	373	365
Wholesale	<b>270</b>	189	173	<b>725</b>	507	478
Total volume	<b>412</b>	322	303	<b>1,115</b>	880	843
Net sales and operating revenue (\$000's)						
Retail fuel	<b>\$ 128,023</b>	\$ 112,716	\$ 88,693	<b>\$ 331,184</b>	\$ 286,012	\$ 237,263
Wholesale fuel	<b>214,762</b>	133,729	97,860	<b>545,361</b>	324,717	252,462
Merchandise sales	<b>16,487</b>	12,456	10,640	<b>44,445</b>	33,430	28,004
Total net sales and operating revenue	<b>\$ 359,272</b>	\$ 258,901	\$ 197,193	<b>\$ 920,990</b>	\$ 644,159	\$ 517,729
Gross margin (\$000s)	<b>\$ 46,350</b>	\$ 27,716	\$ 20,810	<b>\$ 109,048</b>	\$ 65,112	\$ 65,138
Less: Merchandise gross margin	<b>4,387</b>	3,168	2,794	<b>11,674</b>	8,833	7,240
Non fuel revenue included in gross margin	<b>2,071</b>	1,945	1,289	<b>5,706</b>	5,276	3,783
Fuel gross margin	<b>\$ 39,892</b>	\$ 22,603	\$ 16,727	<b>\$ 91,668</b>	\$ 51,003	\$ 54,115
Cents per litre	<b>\$ 0.0968</b>	\$ 0.0702	\$ 0.0552	<b>\$ 0.0822</b>	\$ 0.0580	\$ 0.0642

## Station Counts

## Retail

Fas Gas	99	116	141
Fas Gas Plus	91	89	69
Esso	6	—	—

Total retail	196	205	210
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## Wholesale

Race Trac Fuels	202	218	230
Fas Gas Plus	11	—	—
Esso	152	—	—

Total wholesale	365	218	230
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Total stations	561	423	440
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PARKLAND INCOME FUND

# *Corporate Information*

## **Head Office**

Suite 236, Riverside Office Plaza  
4919 – 59th Street  
Red Deer, Alberta  
T4N 6C9  
Tel: (403) 357-6400  
Fax: (403) 352-0042  
Email: [corpinfo@parkland.ca](mailto:corpinfo@parkland.ca)  
Website: [www.parkland.ca](http://www.parkland.ca)

## **Banker**

HSBC Bank Canada  
108, 4909 – 49th Street  
Red Deer, Alberta  
T4N 1V1

## **Auditors**

PricewaterhouseCoopers LLP  
3100, 111 – 5th Avenue SW  
Calgary, Alberta  
T2P 5L3

## **Legal Counsel**

Bennett Jones LLP  
4500, Bankers Hall East  
855 – 2nd Avenue SW  
Calgary, Alberta  
T2P 4K7

## **Stock Exchange Listing**

Toronto Stock Exchange  
Trading Symbol: PKI.UN

## **Registrar and Transfer Agent**

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

## **Directors**

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

## **Officers**

Michael W. Chorlton  
President and CEO  
  
John G. Schroeder  
Vice President and CFO  
Corporate Secretary  
Chief Privacy Officer  
  
Chris R. Podolsky  
Corporate Controller  
  
Kelly G. Collier  
Controller, Retail  
  
Jay S. Chatha  
Controller, Wholesale

## **Wholly Owned Subsidiaries**

986408 Alberta Ltd.  
986413 Alberta Ltd.  
Parkland Holdings Limited Partnership  
Parkland Industries Limited Partnership  
Parkland Industries Ltd.  
Parkland Investment Trust  
Parkland Refining Ltd.