



**Parkland Fuel Corporation**  
**Annual Information Form**

*For the Fiscal Year Ended December 31, 2010*

March 29, 2011

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**Appendix 1 – Mandate of the Audit Committee**

## GLOSSARY OF TERMS

The following terms when used in this Annual Information Form have the meanings set forth below, unless otherwise indicated.

"**Arrangement**" means the arrangement completed on December 31, 2010 whereby the Fund reorganized from a trust structure to a corporation, Parkland Fuel Corporation;

"**Bluewave**" means Bluewave Energy Ltd.;

"**Board of Directors**" or "**Board**" means the board of directors of Parkland;

"**Business**" means the marketing of fuels and related products and services to commercial, industrial, retail and residential customers in Canada as currently carried on by Parkland and affiliated companies, including the predecessor businesses historically carried on by Parkland Industries Ltd. and its subsidiaries and Bluewave Energy Limited Partnership and its subsidiaries;

"**Business Acquisition Report**" means the business acquisition report of Parkland dated March 31, 2010 relating to the indirect acquisition by Parkland of the assets of Bluewave Energy LP;

"**Business Corporations Act**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder;

"**Business Day**" means any day other than a Saturday, Sunday or statutory holiday in the City of Red Deer, Alberta;

"**Common Shares**" means the common shares in the capital of Parkland;

"**Corporation**" means Parkland Fuel Corporation, a corporation incorporated under the Business Corporations Act;

"**Debentureholders**" means, collectively, the holders, from time to time, of the Series 1 Debentures and the Series 2 Debentures;

"**Debentures**" means, collectively, the Series 1 Debentures and the Series 2 Debentures;

"**Fund**" means Parkland Income Fund, an unincorporated open-ended mutual fund trust established under the laws of the Province of Alberta by the Fund Declaration of Trust;

"**Fund Declaration of Trust**" means the declaration of trust dated as of April 30, 2002 and amended and restated as at May 5, 2005 and as further amended and restated December 31, 2010, pursuant to which the Fund was created;

"**MD&A**" means management's discussion and analysis of the financial condition and results of operations of the Corporation for the year ended December 31, 2010;

"**Parkland**" means, for periods prior to completion of the Arrangement, the Fund and includes, where the context dictates, its subsidiaries and interests in partnerships, and for periods after completion of the Arrangement, the Corporation and includes, where the context dictates, its subsidiaries and affiliates;

"**Refinery**" means the refinery located at Bowden, Alberta and held by Parkland Refining Ltd., an indirect subsidiary of the Corporation;

"**Reorganization**" means the internal reorganization of the Corporation and certain of its subsidiary and affiliated entities which was completed following the completion of the Arrangement whereby, among other things, the Fund was wound-up and dissolved;

**"Series 1 Debentures"** means the outstanding \$97.75 million aggregate principal amount of 6.50% series 1 convertible unsecured subordinated debentures of the Corporation;

**"Series 2 Debentures"** means the outstanding \$45 million aggregate principal amount of 5.75% series 2 convertible unsecured subordinated debentures of the Corporation;

**"Shareholders"** means the holders of Common Shares;

**"TSX"** means the Toronto Stock Exchange;

**"Unitholders"** means the former holders, from time to time, of Units; and

**"Units"** means the units of the Fund which were outstanding prior to completion of the Reorganization.

## CAUTIONARY STATEMENT REGARDING FORWARD – LOOKING INFORMATION AND STATEMENTS

Certain information contained herein regarding Parkland including statements that contain words such as "could", "should", "can", "anticipate", "estimate", "propose", "plan", "expect", "believe", "will", "may" and similar expressions and statements that are not related to historical facts constitute forward-looking information or statements under applicable securities laws. In particular, the forward-looking information and statements include, but are not limited to statements with respect to the 2011 fiscal year, information technology, environmental initiatives, the taxation of Shareholders resident in Canada, growth of Parkland's business and operations, the completion of various projects and the demand for Parkland's products and services.

The forward-looking information and statements contained in this Annual Information Form are based upon certain assumptions and factors such as historical trends, current conditions and expected future developments, which the Corporation believes are reasonably accurate at the time of preparing this Annual Information Form. However, the forward-looking information and statements contained herein involve known and unknown factors and risks that could cause actual results to vary materially from those anticipated, including, without limitation, factors 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. Readers are cautioned that the foregoing list of factors is not exhaustive and that additional information on these and other factors that could affect the Corporation's operations or financial results is discussed in this Annual Information Form and the MD&A on file with Canadian securities regulatory authorities and available on the Canadian System for Electronic Document Analysis and Retrieval ("**SEDAR**") at [www.sedar.com](http://www.sedar.com) or the Corporation's website at [www.parkland.ca](http://www.parkland.ca).

Consequently, all of the forward-looking information and statements in this Annual Information Form are expressly qualified by this cautionary statement. There is no representation by Parkland and there can be no assurance that actual results achieved will be the same in whole or in part as those set out in the forward-looking information and statements. Readers are therefore cautioned not to place undue reliance on such forward-looking information and statements. 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.

## CORPORATE STRUCTURE

### Parkland Fuel Corporation

The Corporation was incorporated on March 9, 2010 under the Business Corporations Act for the purpose of participating in the Arrangement. On December 31, 2010, the Corporation was a party to the Arrangement completed under Section 193 of the Business Corporations Act, wherein the Fund, the predecessor public entity to the Corporation, reorganized its structure into a corporate structure. As a result of the Arrangement, the Corporation became the sole holder of all of the Units and the former holders of Units and class "B" and class "C" limited partnership units of Parkland Holdings Limited Partnership (collectively, the "**Rollover Units**"), an indirect subsidiary of the Fund, were issued one Common Share for each such unit held. Prior to completion of the Arrangement, the Corporation did not carry on any active business. The Common Shares commenced trading on the TSX on January 7, 2011 under the trading symbol "PKI".

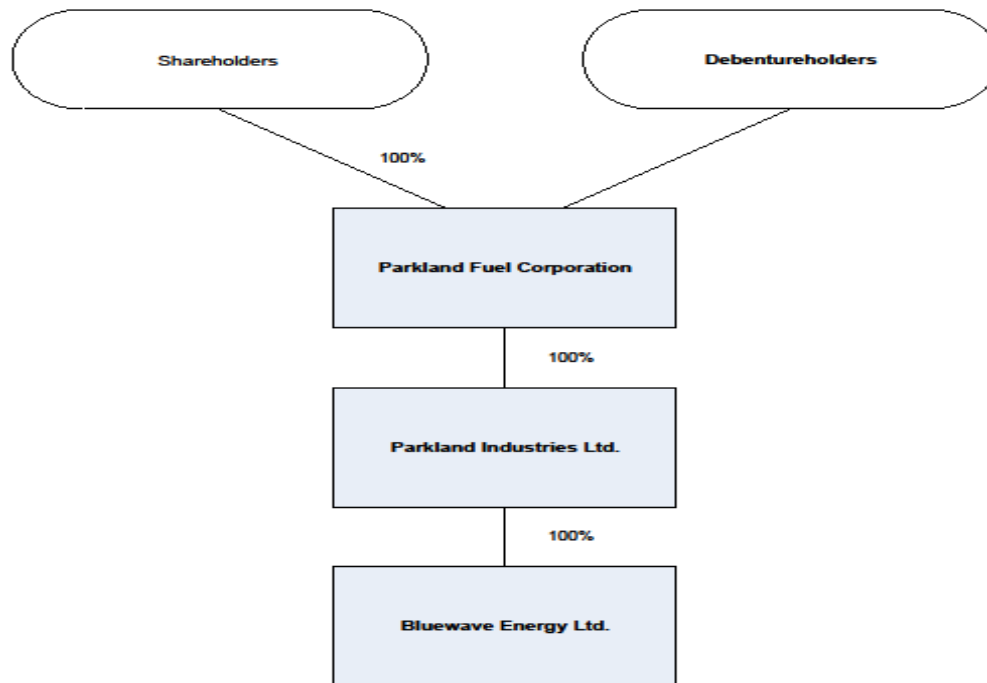
Prior to completion of the Arrangement, the Fund was an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta pursuant to the Fund Declaration of Trust. The Fund was created pursuant to a reorganization of Parkland Industries Ltd. into a mutual fund trust pursuant to a plan of arrangement which was approved by the shareholders of Parkland Industries Ltd. and completed on June 28, 2002 (the "**2002 Arrangement**"). The Units were listed on the TSX under the trading symbol "PKI.UN" until January 7, 2011 when they were voluntarily delisted from the TSX as a consequence of the Arrangement. Consequently, the Fund voluntarily ceased to be a reporting issuer under applicable securities laws in Canada.

Following completion of the Arrangement, the Corporation and certain of its subsidiaries and affiliates completed the Reorganization whereby, among other things, the Fund was wound-up and dissolved and the Corporation simplified its corporate structure. The Reorganization consolidated the Corporation's primary business activities into two operating subsidiaries, Parkland Industries Ltd. and Bluewave Energy Ltd. and wound-up and/or dissolved certain immaterial subsidiaries and other entities which were formed in connection with the 2002 Arrangement and in order to facilitate operation of the Business within a trust structure. See "Organizational Structure of the Corporation" below.

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares in series. The registered and head office of the Corporation is located at Suite 236, Riverside Office Plaza, 4919 - 59th Street, Red Deer, Alberta, T4N 6C9. Following the completion of the Reorganization, the Corporation has two material subsidiaries, Parkland Industries Ltd., which is a wholly owned subsidiary of the Corporation and Bluewave Energy Ltd., which is a wholly owned subsidiary of Parkland Industries Ltd.

### Organizational Structure of the Corporation

The following diagram sets forth the organizational structure of the Corporation and its material subsidiaries as of the date hereof:



The following table sets forth the names of the material subsidiaries of the Corporation, the percent of shares (or interest) owned directly or indirectly by the Corporation and the jurisdiction of incorporation, continuance or formation of each such subsidiary at the date hereof:

<b>Name of Subsidiary or Partnership</b>	<b>Percent or Interest Owned (directly or indirectly)</b>	<b>Jurisdiction of Incorporation, Continuance or Formation</b>
Parkland Industries Ltd.	100%	Alberta
Bluewave Energy Ltd.	100%	Alberta

## GENERAL DEVELOPMENT OF THE BUSINESS

The Corporation itself and through its subsidiary entities carries on the Business. The Corporation maintains a number of different business units to track the various areas of the Business. This segregation enables the various operating managers to focus on particular business areas for which they are responsible and provides unique offerings to customers under the various brand names.

### Three Year History

#### *2010*

On December 31, 2010, Parkland Income Fund converted to a corporate structure and became Parkland Fuel Corporation pursuant to the Arrangement. Pursuant to the Arrangement, each Unit and Rollover Unit was exchanged for one Common Share. Following completion of the Arrangement, the Corporation and certain of its subsidiaries and affiliates completed the Reorganization. "See Corporate Structure – Parkland Fuel Corporation".

On December 30, 2010, Parkland acquired the fuel distribution business of Island Petroleum Products Ltd. ("**Island Petroleum**") based out of Prince Edward Island. Island Petroleum was the largest full-service home heating company on Prince Edward Island.

On December 6, 2010, Parkland announced that it had entered into an agreement with a syndicate of underwriters to sell to the public on a bought deal basis, \$45 million principal amount of Series 2 Debentures. On December 21, 2010 Parkland completed the issue.

On October 22, 2010, Parkland entered into a ten year agreement with Shell to be a primary distributor of Shell and Pennzoil Quaker State lubricants under Shell's Alliance Distributorship model. Under the agreement, Parkland's primary territory includes British Columbia, Alberta, Saskatchewan, North West Territories, Yukon and Atlantic Canada. In addition, Parkland has the right to market and distribute Shell's transportation and industrial products in all Canadian provinces.

On January 31, 2010, Parkland indirectly acquired the fuel distribution business of Bluewave Energy LP making Parkland the largest national independent fuel distributor in Canada. Headquartered in Dartmouth, Nova Scotia, Bluewave is the largest branded distributor of Shell products in Canada. Bluewave continues to deliver heating oil, diesel fuel, gasoline, lubricants and related products to residential customers and commercial customers throughout Canada in the agriculture, transportation, construction and upstream oil and gas sectors. Bluewave also continues to sell, service and finance heating, air conditioning, water heating and fuel storage equipment. This acquisition is described in greater detail in the Business Acquisition Report, which was filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *2009*

On December 1, 2009, Parkland purchased Eagle Marine Ltd. ("**Eagle Marine**") in Ucluelet, British Columbia which consisted of a marine fueling dock and general store. Eagle Marine previously operated under the Petro-Canada banner, fueling excursion vessels, commercial boats, deep water tuna boats and pleasure craft. This strategic location was re-branded to Columbia Fuels, making it the first addition to the brand since acquiring Columbia Fuels.

On November 10, 2009, Parkland announced that it had entered into an agreement with a syndicate of underwriters to sell to the public on a bought deal basis, \$85 million principal amount of Series 1 Debentures. Parkland also granted the underwriters an over-allotment option to purchase additional debentures at the same offering price. On December 1, 2009 Parkland completed the issue resulting in total gross proceeds of \$97.75 million.

On July 8, 2009, Parkland acquired Anmart Fuels (Taber) Ltd. ("**Anmart**") of Taber, Alberta. Anmart served Southern Alberta with two cardlock locations (Taber, Alberta and Foremost, Alberta), lubricants and bulk deliveries of fuel, methanol and glycol. Anmart also offered a complete range of oils, lubricants and automotive degreasers.

On June 16, 2009, Parkland acquired the fuel distribution business of Columbia Fuels Ltd. ("**Columbia Fuels**") Headquartered in Victoria, British Columbia, Columbia Fuels was a fuel distribution company specializing in home heating oil, bulk petroleum and biofuels and operated bulk fuel terminals on Vancouver Island and the Sunshine Coast region of British Columbia.

## ***2008***

On May 29, 2008, Parkland's expansion into central Canada began with the retail distributor business and wholesale fuel distribution purchased from Noco Energy Canada Inc. This acquisition was completed for \$8.8 million and included approximately 56 independently owned and operated Esso, Sunoco and Noco branded locations and 69 wholesale accounts outside the greater Toronto area.

On February 28, 2008, Parkland acquired the business of Wiebe Transport Inc. ("**Wiebe Transport**") for \$9.2 million, which expanded Parkland's long-haul trucking capability and provided key infrastructure for commercial development and distribution efficiencies.

## **DESCRIPTION OF THE BUSINESS OF THE CORPORATION**

Parkland is Canada's largest independent marketer and distributor of refined petroleum products, managing a nationwide network of sales channels for retail, commercial, wholesale and home heating fuel customers. Parkland's mission is to be the most trusted source of convenience for fuel and related products focused on non-urban markets. A focus on the non-urban market has led to growth in communities where, for various reasons, there often exists strong local connections and brand loyalty and opportunities for Parkland to provide a high level of service.

The Corporation's family of retail and commercial brands includes: Fas Gas Plus, Race Trac Gas, Bluewave Energy, Columbia Fuels, Great Northern Oil, Neufeld Petroleum & Propane, United Petroleum Products and Island Petroleum. Parkland is Canada's local fuel company, delivering competitive fuel products and serving Canadian communities through local operators who care.

### **Fuel Marketing Segment**

Parkland's fuel marketing segment, which accounted for approximately 92% (92%- 2009) of net sales and operating revenue and approximately 72% (73% - 2009) of gross profit, is the Corporation's most important operating segment and the focus of our operations.

Parkland manages fuel distribution and marketing through four different divisions:

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

### ***Parkland Commercial Fuels***

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

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

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

### Markets

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

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

### Brands

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

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

## Customers

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

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

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

### ***Parkland Retail Fuels***

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

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

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

Parkland operates service stations under three business models:

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

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

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

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

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

#### Markets

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

#### Brands

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

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

#### Customers

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

#### ***Parkland Supply & Wholesale***

Parkland Supply & Wholesale is responsible for managing Parkland's fuel supply contracts, purchasing fuel from refiners, and serving wholesale and reseller customers. Fuel volumes from Parkland Supply & Wholesale accounted for 16% of the Corporation's total fuel distribution in 2010. Wholesale fuel marketing accounted for \$534.7 million in sales revenue in 2010, \$476.7 million in 2009 and \$676.5 million in 2008.

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

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

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

### ***Parkland Transportation***

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

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

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

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

### **Non-Fuel Commercial Segment**

Parkland's Non-Fuel Commercial Segment consists of agricultural inputs, lubricants and other products that do not fall into the fuel category. This segment accounts for approximately 5% (5% - 2009) of revenues and 15% (12% - 2009) of gross profits. Non-Fuel Commercial revenue accounted for \$156.1 million in 2010, \$93.2 million in 2009 and \$92.4 million in 2008.

### **Other Segment**

Parkland's Other Segment consists of lottery revenue, externally charged freight revenue, retail variable rents and vendor rebates. While this segment accounts for approximately 1% (1% - 2009) of net sales and operating revenue, it is responsible for approximately 12% (10% - 2009) of Parkland's gross profits.

Other revenue accounted for \$39.7 million in 2010, \$25.4 million in 2009 and \$20.0 million in 2008.

### **Convenience Store Segment**

The Convenience Store segment consists of stores that are owned or controlled by Parkland, which are associated with Corporation-operated retail gas service stations in Parkland's network. Net sales in the Convenience Store segment account for approximately 1% (2% - 2009) of total revenue and approximately 2% (5% - 2009) of the Corporation's gross profit. Convenience Store merchandise accounted for \$24.3 million in 2010, \$48.7 million in 2009 and \$61.8 million in 2008.

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

## **Supplemental Operational Information**

### ***Capital Expenditures***

During 2010, the Corporation expended \$40.9 million in capital investments, of which \$11.7 million was classified maintenance capital and \$29.2 million was classified as growth capital and intangibles.

### ***Information Technology***

The Corporation has a team of information technology professionals who maintain operating systems as well as investigate and implement new technologies. During 2010, the Corporation implemented an Enterprise Resource Planning ("**ERP**") system to consolidate accounting systems across the Corporation's network. The project will be completed in 2011 with the integration of Bluewave into the ERP system. See "Risk Factors – Technology".

### ***Employees***

As at December 31, 2010, Parkland had approximately 1,610 full and part-time employees.

### ***Environmental Initiatives***

The Corporation has established a comprehensive program to proactively manage environmental issues and mitigate risk within every aspect of its businesses. It ensures risk management processes are in place and sites and equipment are monitored on an ongoing basis.

Procedures related to prudent risk management fall into five areas:

- The Corporation carries out environmental due diligence prior to the purchase or lease of any new site. This can include Phase I and Phase II site assessments, equipment inspections and maintenance review depending upon the level of risk associated with each potential acquisition;
- Operations are routinely reviewed to ensure compliance with industry standards and regulations. Various management systems are used to identify and follow up on corrective actions and environmental risk is managed proactively;
- A regimen of ongoing monitoring is in place at all Parkland retail locations. This includes daily reconciliation of inventory balances and installation of on-site test wells at all retail stations. Parkland maintains cathodic protection systems to inhibit tank deterioration at all stations using steel tanks;
- Third parties are hired to provide underground tank and soil testing using industry recognized practices. A remediation program is managed by experienced Parkland personnel and directed by professional environmental consultants. Remediation options are selected based upon their value and efficiency. Given the attention to early detection of risk, remediation costs have remained relatively low; and
- The Corporation has a long-term tank replacement program in place that provides a schedule of replacement of steel underground storage tanks with double walled fiberglass tanks. For the year ended December 31, 2010, approximately \$2.5 million was expended under this program for the removal and replacement of steel tanks and this was categorized as maintenance capital. The timing of expenditures is discretionary and initial plans for 2011 include approximately \$3.0 million of annual maintenance capital to be directed to this program.

### ***Significant Contracts***

Parkland relies on a small number of fuel suppliers, all of which are parties to long-term supply agreements with the Corporation. A long-term contract with a major supplier will be coming to an end on December 31, 2013, and Parkland has already started developing alternate supply options and related facilities to economically replace the fuel supply for 2014.

## **RISK FACTORS**

### **Retail Pricing and Margin Erosion**

Retail pricing for motor fuels is very competitive, with major oil companies and new entrants such as grocery chains and large retailers active in the marketplace. From time to time, factors such as competitive pricing, seasonal over-supply and lack of responsiveness of retail pricing to changes in crude oil costs can lead to lower margins in the Corporation's business. This is normally limited to seasonal time frames or limited market areas but could occur more extensively. Furthermore, difficult fuel market conditions may also adversely affect the Corporation's major customers and create increased credit risk.

### **Competition**

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

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

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

Some of the Corporation's supply contracts allow the Corporation to participate in refiners' margins. These margins are volatile and not assured.

### **Credit**

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

## **Safety and Environmental**

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

## **Dependence on Key Suppliers**

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

## **Economic Conditions**

Parkland's business is subject to a number of general economic factors, many of which are out of the Corporation's control, which may have a material adverse effect on the business, financial condition and results of operations of Parkland. These include recessionary economic cycles and downturns in the business cycles of the industries in which our customers conduct business, as well as downturns in the principal regional economies where operations are located.

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

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

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

The oil production sector is more stable but will ultimately decline with reduced exploration activity. The Corporation provides propane and related product sales to this sector.

Forestry has seen reduced activity over the past few years and is susceptible to international pricing and demand for the product.

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

Part of the Corporation's profitability is derived from its share of refiners' margins under a long-term supply contract that expires December 31, 2013. Refiners' margins may deteriorate in the face of declining demand for petroleum products.

## **Weather**

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

## **Dependence on Key Personnel**

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

## **Alternate Fuels**

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

## **Climate Change**

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

## **Technology**

At the operational level, the Corporation relies on electronic systems for recording of sales and accumulation of financial data. A major breakdown of computer systems would disrupt the flow of information and could cause a loss of records. The conversion and upgrade of electronic systems could result in lost or corrupt data which could impact the accuracy of financial reporting and management information.

In particular, the implementation by Parkland of the ERP system continues and it is expected that the project will be completed in 2011 with the integration of Bluewave and Columbia Fuels into the ERP system. The implementation includes the conversion and integration of existing applications and the re-engineering of processes and controls. There is risk that in connection with the continued implementation and integration of Bluewave and Columbia Fuels into the ERP system that components and related applications will not perform as planned, data could be lost and business could be disrupted.

## **Insurance**

Although the Corporation has a comprehensive insurance program in effect, there can be no assurance that potential liabilities will not exceed the applicable coverage limits under its insurance policies. Consistent with industry practice, not all risk factors are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis. The Corporation maintains insurance coverage for most environmental risk areas, excluding underground tanks at service stations. Although not insured, these risks are managed through ongoing monitoring, inventory reconciliations and tank replacement programs.

## **Management Operations of Subsidiaries**

The Board of Directors and management of the Corporation oversee the management and operation of the Corporation and its subsidiaries. As a result, Shareholders will have limited say in matters affecting the operation of the business and, if such holders are in disagreement with the decisions of the Board of Directors or management of the Corporation, they will have limited recourse. The control exercised by the Board of Directors and management of the Corporation may make it more difficult for others to attempt to gain control or influence the activities of the Corporation and its subsidiaries.

## **Interest Rates**

Most of the Corporation's loans have floating rates and may be negatively impacted by increases in interest rates, the effect of such increases would be to reduce the amount of cash available for distributions. In addition, the market price of the Common Shares at any given time may be affected by the level of interest rates prevailing at such time. The Series 1 Debentures bear interest at a five year annual fixed rate of 6.5% payable semi-annually in arrears on November 30 and May 31 in each year. The Series 2 Debentures bear interest at a five year annual fixed rate of 5.75% payable semi-annually in arrears on December 31 and June 30 in each year commencing June 30, 2011.

Amounts paid in respect of interest on long-term debt incurred by Parkland under its credit facilities will reduce Parkland's net income. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service. Parkland is exposed to fluctuations in short-term Canadian interest rates as a result of the use of a floating debt rate in its credit facilities. Although Parkland believes its credit facilities will be sufficient to meet its immediate requirements, there can be no assurance that the amount will be adequate to satisfy future financial obligations or that additional funds will be able to be obtained.

Parkland's lenders have been provided with security over all or substantially all of the Corporation's assets. If the Corporation becomes unable to pay its debt service or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the Corporation's assets or enforce or realize upon any such guarantee or share pledge.

## **Government Legislation**

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

## **Refinery Operating Permit**

The Refinery has operated as a toll-based petrochemical processing site and fuel storage site. The Corporation obtained a new permit in 2007 to allow for continued use or for alternative uses of the facility. The new permit expires in 2017.

If operations at the refinery are not continued, the Corporation may incur significant remediation costs. An estimate of the potential future remediation cost has been accrued and provided for in the Corporation's financial statements.

## **Regional Economic Conditions**

The Corporation's revenues may be negatively influenced by changes in regional or local economic variables and consumer confidence. External factors that affect economic variables and consumer confidence and over which the Corporation exercises no influence include unemployment rates, levels of personal disposable income and regional or economic conditions. Changes in economic conditions could adversely affect consumer spending patterns, travel and tourism in certain of the Corporation's market areas. Some of the Corporation's sites are located in markets which are more severely affected by weak economic conditions. With the acquisition of Bluewave, with primary operations in Atlantic Canada, the Corporation has added Atlantic Canada economic exposure risk and at the same time has diversified overall Canadian exposure that was previously heavily weighted to Western Canada variables.

## **Future Capital Needs**

Additional funds may be required to support Parkland's expansion, develop new services, respond to competitive pressures, acquire complementary businesses, or take advantage of unanticipated opportunities. There can be no assurance that such additional funding, if needed, will be available on terms attractive to Parkland or at all. If adequate funds are not available on acceptable terms, Parkland may be unable to develop or enhance its business, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on its business, financial conditions and operating results.

## **Growth**

Parkland's growth strategy may place significant demands on its financial, operational and management resources. Parkland has been active in growth oriented activities in the past and in order to continue growth in the future, Parkland will need to add administrative, management and other personnel and make additional investments in operations and systems. Parkland may not be able to find and train qualified personnel, or do so on a timely basis or expand operations and systems to the extent, and in the time, required. The success of expansion and growth generally is dependent upon timing, the size and quality of opportunities, the ability to integrate complementary businesses, available debt capacity and market conditions. There can be no guarantee that Parkland will be successful in its plans or the method chosen to expand its operations, or that such expansion will be a financial success.

## **Acquisition Strategy**

Parkland's growth strategy will depend, in part, on acquiring other fuel distributors or complementary businesses which it may be unable to do profitably or at all. The success of this acquisition strategy will depend, in part, on Parkland's ability to:

- identify suitable businesses;
- negotiate the purchase of those businesses (or investment in the businesses) on acceptable terms;
- complete the transactions within the expected time frame;
- fund the transaction;
- obtain necessary regulatory or other approvals within the expected time frame;
- improve the results of operations of the businesses that it buys and successfully integrate the operations with Parkland; and
- avoid or overcome any concerns expressed by regulators, including competition law concerns.

Parkland may fail to properly complete any or all of these steps and may also experience other impediments to its strategy. Parkland may not be able to find appropriate acquisition candidates, acquire those candidates, obtain necessary permits or integrate the acquired businesses effectively or profitably.

Other companies may also be seeking to acquire similar businesses, including companies that may have greater financial resources than Parkland. Increased competition may reduce the number of acquisition targets available and may lead to unfavourable terms as part of any acquisition, including high purchase prices. If acquisition candidates are unavailable or too costly, Parkland may need to change its business strategy as it relates to acquisitions.

Parkland's increased size means that government regulators, such as competition law regulators in Canada, may examine its acquisitions more closely. These regulators may object to certain purchases or place conditions on them that would limit their benefit to Parkland.

If Parkland is unsuccessful in implementing its acquisition strategy for the reasons discussed above or otherwise, its financial condition and results of operations could be materially adversely affected. Even if Parkland is able to make acquisitions on advantageous terms and is able to integrate them successfully into its operations and organization, some acquisitions may not fulfill Parkland's strategy in a given market due to factors that Parkland cannot control, such as market position or customer base. As a result, operating margins could be less than originally anticipated when Parkland made those acquisitions.

### **Integration of Businesses into Parkland's Operations**

A substantial part of Parkland's growth has been through acquisitions. The integration of businesses acquired may result in significant challenges and depend, in part, upon timely, efficient and successful execution of post-acquisition strategies. Management may be unable to accomplish the integration smoothly or successfully or without spending significant amounts of money. There can be no assurance that management will be able to integrate the operations of each of the businesses successfully. Any limitation of management to successfully integrate the operations, including, but not limited to, information technology and financial reporting systems, could have a material adverse effect on Parkland's business and financial condition or interfere with operations and reduce operating margins.

### **Potential Liabilities from Acquisitions**

In pursuing acquisitions, Parkland conducts due diligence on the business or assets being acquired and seeks detailed representations and warranties respecting the business or assets being acquired. Despite such efforts, there can be no assurance that Parkland may not become subject to undisclosed liabilities as a result of acquisitions. In addition, liabilities may exist which were not discovered during the due diligence process prior to completing the acquisition. This failure to discover potential liabilities may be due to various factors, such as failure to accurately assess all of the pre-existing liabilities of the operations acquired or vendors failing to comply with laws. If this occurs, Parkland may be responsible for such violations which could have a material adverse effect on its business, financial condition and results of operations.

### **Possible Volatility of Common Share Price**

The market price of Parkland's securities may be subject to significant fluctuations in response to variations in results of operations and other factors. Developments affecting Parkland's customers, including national and international economic conditions, could also have a significant impact on the market price of Parkland's securities. In addition, the stock market can experience price and volume fluctuations that are often unrelated or disproportionate to the operating performance of companies including Parkland. Therefore, as a result of these fluctuations, which are beyond Parkland's control, the price of the Common Shares or the Debentures could be affected which may have indirect consequences, such as a possible take-over or other business combination.

## **Sales of Additional Common Shares**

Parkland may issue additional Common Shares in the future to finance certain capital expenditures, including acquisitions. Parkland is permitted to issue an unlimited number of additional Common Shares without the approval of the Shareholders. Any issuance of Common Shares may have a dilutive effect on the Shareholders. Parkland may also issue preferred shares in one or more series for which the board of directors has the sole discretion to determine the number issued and the rights, privileges, restrictions and conditions attached to such shares.

## **Nature of the Debentures**

Parkland has listed for trading on the TSX the Series 1 Debentures and the Series 2 Debentures. There can be no assurance that an active trading market will develop or be sustained. The Debentures are subordinate to senior indebtedness and to any indebtedness of creditors of Parkland. "**Senior Indebtedness**" means, in effect, the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness, liabilities and obligations of Parkland (whether outstanding as at the date of the indentures governing the terms of the Debentures or thereafter created, incurred, assumed or guaranteed, other than indebtedness evidenced by the Debentures and all other existing and future debentures or other instruments of Parkland which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinate in right of payment to, the Debentures. The Debentures are also effectively subordinate to claims of creditors of Parkland's subsidiaries except to the extent Parkland is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The indentures governing the terms of the Debentures do not limit the ability of Parkland to incur additional debt or liabilities (including Senior Indebtedness) or to make payments of dividends, except in certain circumstances and does not contain any provision specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving Parkland.

Parkland may redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Common Shares. The Debentures are convertible into Common Shares at any time at the option of the holder of the Debentures. Accordingly, holders of Common Shares may suffer dilution.

## **INDUSTRY CONDITIONS**

### **Industry Overview**

In Canada, the retail and wholesale marketing of gasoline is dominated by major national and international integrated oil companies. These companies are also involved in the exploration for and production of oil and gas and the refining business. During the 1990's the major integrated oil companies (the "**majors**") consolidated and rationalized their retail operations in western Canada, focusing on larger sites with convenience stores in urban markets. Competition in these markets is strong between the majors and some independents and successful retail operations are often matched by competitors locating at adjacent corners of the same intersections. Conversely, the Corporation focuses its operations outside of urban markets where the competition generally has a lesser presence. Sales volumes per site in these markets are typically lower than in larger centres, however, outside of urban markets typically yield higher average "per litre" margins and can be profitable with lower sales volumes than are required in urban markets.

The transportation fuels marketing industry is susceptible to pricing pressures related to the balance of available supply and consumer demand. The western Canadian market, which is Parkland's largest market area is, due to its geography, relatively inaccessible to product supply from outside the region and transportation fuels are refined in western Canada. This generally provides for more balanced market conditions.

Other significant participants in the market occupied by the Corporation include co-operative associations, smaller chains and independent operators. Major grocery chains and "big box" retailers have also entered the retail fuels business, primarily in urban centres, in an attempt to increase their in-store traffic.

## **Strategy and Competitive Advantages**

The Corporation is Canada's largest national independent marketer of petroleum fuel products.

The Corporation has developed a multi-branded retail network of gasoline stations and convenience stores in Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan, the Yukon Territory and the Northwest Territories. The main focus is to own, operate or supply stations outside of urban markets. The Corporation focuses on being a low cost operator and its brand, reputation for value and its transportation and supply arrangements have provided a base for profitability.

The Corporation has developed a commercial and industrial fuels and related products and services business in Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan, the Yukon Territory and the Northwest Territories serving customers in a variety of industries. This business, which has grown substantially since 2007 through acquisitions, including the acquisition in 2010 of the business of Bluewave, provides market diversification and counter-seasonal earnings to our original base retail business.

The Corporation gains competitive advantage from its strong petroleum product supply portfolio and control of its distribution system.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Mandate**

The mandate of the Audit Committee (the "**Audit Committee Mandate**") of the Corporation is set forth in Appendix 1 of this Annual Information Form.

### **Composition of the Audit Committee**

The Audit Committee is a standing committee appointed by the Board of Directors to assist the Board of Directors in fulfilling its oversight responsibilities with respect to financial reporting by the Corporation. The Audit Committee of the Corporation currently consists of three members, all of whom are independent and financially literate in accordance with the definitions in National Instrument 52-110 *Audit Committees*. The relevant education and experience of each Audit Committee member is outlined below.

#### Ron Rogers

Mr. Rogers holds a Bachelor of Commerce degree from St. Mary's University and subsequently earned his Chartered Accountancy with Ernst & Young. Mr. Rogers has over 35 years experience in various financial and operating positions with Ernst & Young, Warrington Inc., the Crown Management Board of Saskatchewan, Moore Corporation and Shaw Communications Inc. Mr. Rogers is currently a member of the Board of each of Corus Entertainment (Chairman of Audit Committee and member of the Executive Committee) and Transforce Inc. (Chairman of Audit Committee and member of the Corporate Governance Committee). Mr. Rogers previously served on the Boards of the Brick Furniture Company and Pizza Pizza Royalty Fund.

#### Jim Pantelidis

Mr. Pantelidis holds a Bachelor of Science degree and a Master of Business Administration degree, both from McGill University. Mr. Pantelidis has over 30 years experience in the petroleum industry. Mr. Pantelidis is chairman and director of the EnerCare Inc. since 2002 (member of the Audit, Governance and Compensation, and Investment Committees). He also serves on the Board of each of Rona Inc. (Chairman of the Human Resources and Compensation Committee and member of the Development Committee); Industrial Alliance Insurance and Financial Services Inc. (Chairman of the Investment Committee and member of the Human Resources and Compensation Committee) and Equinox Minerals Limited (Chairman of the Human Resources and Compensation Committee and member of the Audit Committee). From 2002 to 2006 Mr. Pantelidis was

on the Board of FisherCast Global Corporation and served as Chairman and Chief Executive Officer from 2004 to 2006.

### Jim Dinning

Mr. Dinning holds a Bachelor of Commerce degree and a Masters degree in Public Administration, both from Queen's University. He was awarded an honorary doctorate from the University of Calgary. Mr. Dinning is Chair of Western Financial Group Inc., an Alberta-based western Canadian financial services company. He also chairs the board of Export Development Canada. He serves as a director for Oncolytics Biotech Inc. (member of Audit Committee), Russel Metals Inc. (member of Governance and Environmental/Safety Committees) and Liquor Stores NA Ltd. (member of Audit, Governance and Compensation Committees). He is a director of Armstrong Group and a member of the TD Energy Advisory Board. He is the Chairman of the Canada West Foundation and a director of the Norlien Foundation. In 2010, he was elected Chancellor of the University of Calgary. He is a graduate of the Institute of Corporate Directors Education Program.

### **Pre-approval Policies and Procedures**

Under the Audit Committee Mandate, the Audit Committee is required to approve the terms of the engagement and the compensation to be paid to the external auditor of the Corporation. In addition, the Audit Committee is required to review and pre-approve non-audit services provided by the external auditor as required by Multilateral Instrument 52-110.

### **Audit Fees**

PricewaterhouseCoopers LLP were appointed auditors of the Corporation in 2004. PricewaterhouseCoopers LLP billed the Corporation for audit services rendered for the year ended December 31, 2010 an aggregate amount of \$525,000 and an aggregate amount of \$345,000 for the year ended December 31, 2009.

### **Audit Related Fees**

PricewaterhouseCoopers LLP billed the Corporation for reviews of the Corporation's quarterly reports an aggregate amount of \$454,074 for 2010 and an aggregate amount of \$66,000 for 2009.

### **Tax Fees**

PricewaterhouseCoopers LLP billed the Corporation for reviews and advice on the income tax provisions in the Corporation's quarterly and year end reports an aggregate amount of \$18,900 for 2010 and nil for 2009.

### **All Other Fees**

In 2010, PricewaterhouseCoopers LLP billed the Corporation \$80,813 for a diagnostic software review and assistance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* testing, \$47,009 for C-Sox advice, \$35,700 for International Financial Reporting Standards reviews and advice, \$52,069 for advice relating to indirect acquisition of Bluewave, \$38,768 for advice relating to the 2010 management information circular of the Fund, \$15,747 for advice relating to the Enterprise Resource Planning system conversion and \$6,400 for Canadian Public Accountability Board fees. In 2009, PricewaterhouseCoopers LLP billed the Corporation \$71,750 for a diagnostic software review and assistance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* testing.

## DISTRIBUTIONS AND DIVIDENDS

### Distributions Paid by the Fund

The information below is provided for the Fund for the periods indicated. Prior to the completion of the Arrangement, the amount of cash distributed monthly per Unit was generally equal to a pro rata share of all amounts received by the Fund in each month less the costs and expenses of the Fund and any amounts which became payable in cash by the Fund relating to the redemption of Units. The Fund's income consisted of interest income on the principal amount of notes issued by Parkland Investment Trust, a former subsidiary of the Fund, in favour of the Fund and distributions, if any, received on units of Parkland Investment Trust held by the Fund. Parkland Investment Trust was wound-up and dissolved in connection with the Arrangement.

Distributions were paid by the Fund on or about the 15<sup>th</sup> day of each calendar month to Unitholders of record as of the last business day of the immediately preceding calendar month. From January 2008 through to December 2010, the Fund made a monthly distribution payment of \$0.105 per Unit.

### Dividends Paid by the Corporation and Dividend Policy

In December 2010, the Corporation announced its intention to pay a monthly dividend of \$0.085 per Common Share, equivalent to \$1.02 per Common Share annually. The Corporation has declared and paid a dividend of \$0.085 per Common Share to Shareholders of record on each of January 21, 2011, February 23, 2011 and has declared a dividend of \$0.085 per Common Share for Shareholders of record on March 22, 2011.

The declaration of dividends is at the sole discretion of the Board of Directors and the amount of dividends declared by the Corporation and the frequency of payment thereof, if any, may vary from time to time as a consequence of a number of factors.

### Dividend Reinvestment Plan

In connection with the completion of the Arrangement, the Fund terminated its distribution reinvestment plan and all whole Units held on behalf of participants under such were converted into an equivalent number of Common Shares in accordance with the Arrangement.

In 2011, the Corporation established a Premium Dividend™ and Dividend Reinvestment Plan (the "Plan"). Shareholders who wish to participate in the Plan have access to the following options:

- The Premium Dividend™ – Paid in cash, this provides eligible Shareholders with a 2% cash premium on top of their regular cash dividend; or
- Dividend Reinvestment – Shareholders receive a 5% discount on Common Shares purchased through the Plan.

Shareholders interested in participating in either of these options can find out more at Parkland's website: <http://www.parkland.ca/internet/investor-relations/about-pki-units/drip.html>. A copy of the enrollment form is available from Valiant Trust Company through their website at [www.valianttrust.com](http://www.valianttrust.com) or by calling 1-866-313-1872, or from Parkland through its website at [www.parkland.ca](http://www.parkland.ca) or by calling 403-357-6400.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the securities of the Corporation which comprise the share capital of the Corporation.

### Common Shares

As at March 24, 2011, there were 54,156,946 Common Shares issued and outstanding.

Each Common Share entitles the holder to receive notice of and to attend all meetings of the Shareholders and to one vote at such meetings. The holders of Common Shares will be, at the discretion of the Board of Directors and subject to applicable legal restrictions, entitled to receive any dividends declared by the Board of Directors on the Common Shares. The holders of Common Shares will be entitled to share equally in any distribution of the assets of the Corporation upon the liquidation, dissolution, bankruptcy or winding-up of the Corporation or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

### Shareholder Rights Plan

In connection with the Arrangement, the Unitholders approved the adoption of a shareholder rights plan for the Corporation (the "**Shareholder Rights Plan**"). Pursuant to the Shareholder Rights Plan, one right (a "**Right**") was issued by the Corporation in respect of each Common Share that was outstanding at the close of business on the effective date of the Arrangement. One Right will also be issued for each additional Common Share issued after the effective date of the Arrangement, subject to the terms and conditions of the Shareholder Rights Plan. A copy of the agreement between the Corporation and Valiant Trust Company, as rights agent, establishing the Shareholder Rights Plan is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Preferred Shares

As at March 24, 2011, there were no preferred shares of the Corporation issued and outstanding.

The preferred shares of the Corporation are issuable in one or more series. The Board of Directors is empowered to fix the number of preferred shares and the rights, privileges, restrictions and conditions to be attached to the preferred shares of each series. The number of preferred shares that may be authorized for issuance at any given time is limited to a maximum of 5,000,000.

## MARKET FOR SECURITIES

### Trading Price and Volume of Units

The Common Shares are listed for trading on the TSX and trade under the symbol "PKI". Prior to the Arrangement, the Units were listed on the TSX under the symbol "PKI.UN". The following table sets forth the price range and trading volumes for the Units that traded on the TSX, as reported by the TSX, for the periods indicated:

<b>Month (2010)</b>	<b>High</b>	<b>Low</b>	<b>Volume Traded</b>
January	\$ 13.49	\$ 11.94	3,071,332
February	\$ 12.55	\$ 11.85	1,920,791
March	\$ 12.45	\$ 11.30	4,908,660
April	\$ 11.79	\$ 10.71	4,352,763
May	\$ 11.58	\$ 9.55	2,860,832
June	\$ 11.10	\$ 10.00	2,079,911
July	\$ 10.81	\$ 9.90	2,100,824
August	\$ 11.00	\$ 10.50	1,967,460
September	\$ 11.59	\$ 10.56	2,595,113
October	\$ 12.18	\$ 11.38	2,365,445
November	\$ 12.45	\$ 10.27	5,817,788
December	\$ 11.50	\$ 10.44	6,281,773

The 6.50% Debentures are listed on the TSX and trade under the symbol "PKI.DB". The following table sets forth the price range and trading volumes for the 6.50% Debentures that traded on the TSX, as reported by the TSX, for the periods indicated:

<b>Month (2010)</b>	<b>High</b>	<b>Low</b>	<b>Volume Traded</b>
January	\$ 106.000	\$ 103.250	2,978,000
February	\$ 104.750	\$ 103.500	4,513,000
March	\$ 104.990	\$ 102.900	1,901,000
April	\$ 105.000	\$ 103.500	1,961,000
May	\$ 104.500	\$ 100.500	2,575,000
June	\$ 103.500	\$ 101.350	1,449,070
July	\$ 104.000	\$ 102.800	1,227,000
August	\$ 107.000	\$ 103.200	1,530,000
September	\$ 106.000	\$ 103.750	1,315,000
October	\$ 106.300	\$ 104.700	869,000
November	\$ 107.750	\$ 102.500	2,937,000
December	\$ 104.000	\$ 102.500	5,491,000

The Series 2 Debentures are listed on the TSX and trade under the symbol "PKI.DB.A". The Series 2 Debentures commenced trading on the TSX on December 21, 2010. The following table sets forth the price range and trading volume for the Series 2 Debentures that traded on the TSX, as reported by the TSX, for the period indicated:

<b>Month (2010)</b>	<b>High</b>	<b>Low</b>	<b>Volume Traded</b>
December (21-31)	\$ 100.70	\$ 99.50	3,273,000

## DIRECTORS AND OFFICERS

### Directors

The following table sets forth the names, jurisdiction of residence, committee memberships, principal occupations or employment for the preceding five years and the date of first being appointed as a director of Parkland for each of the directors of the Corporation as at December 31, 2010. The term of each director will expire at the end of the next annual meeting of Shareholders or when their successors are duly elected or appointed.

Name and Jurisdiction of Residence	Principal Occupation During the Five Preceding Years	Director of Parkland Since
John F. Bechtold <sup>(1)(2)</sup> Victoria, British Columbia, Canada	Retired. Vice President of Western Canada Oil and Gas for Petro-Canada prior to retirement in 2000.	August 10, 2006
Robert G. Brawn <sup>(1)</sup> Calgary, Alberta, Canada	Retired. Chairman of Grande Cache Coal Corporation.	November 13, 1996
Michael W. Chorlton <sup>(3)(4)(10)</sup> Red Deer, Alberta, Canada	Chief Executive Officer of Parkland Fuel Corporation since December 31, 2010. President and Chief Executive Officer of Parkland Income Fund from September 6, 2005 to December 31, 2010. Vice President of Renessen LLC prior thereto.	May 5, 2006
Jim Dinning <sup>(5)(6)</sup> Calgary, Alberta, Canada	Chair of Western Financial Group Inc. Executive Vice-President of TransAlta Corporation prior thereto.	May 5, 2005
Alain Ferland <sup>(1)(2)</sup> Montreal, Quebec, Canada	Retired. President of EFFA Management Inc. and President and Chief Executive Officer of TORR Canada Inc. prior thereto.	June 22, 1999
James Pantelidis <sup>(2)(5)(7)(8)(10)</sup> Toronto, Ontario, Canada	Retired. President of JP & Associates, and Chief Executive Officer of FisherCast Global Corporation prior thereto.	September 7, 1999
Ron Rogers <sup>(5)(9)(10)</sup> Calgary, Alberta, Canada	Retired. Senior Vice President and Chief Financial Officer of Shaw Communications prior to retirement in 2004.	September 15, 2006
David A. Spencer <sup>(1)(3)(6)</sup> Calgary, Alberta, Canada	Partner with Bennett Jones LLP	May 5, 2005

#### Notes:

- (1) Member of the Compensation and Corporate Governance Committee. Chair of the Compensation and Corporate Governance Committee is Alain Ferland.
- (2) Member of the Petroleum Products Supply Advisory Committee. Chair of the Petroleum Products Supply Advisory Committee is James Pantelidis.
- (3) Mr. Chorlton is Chief Executive Officer of each Parkland entity. Mr. Spencer is a partner with Bennett Jones LLP, Parkland's legal counsel.
- (4) On December 3, 2010, Mr. Chorlton announced his intention to resign as a director and as President and Chief Executive Officer of Parkland, effective May 1, 2011, and Mr. Robert B. Espey, the Chief Operating Officer of Parkland at the time, was named as his successor. As a transitional measure, on March 15, 2011, Mr. Espey was appointed President and Chief Operating Officer and Mr. Chorlton was appointed Chief Executive Officer.
- (5) Member of the Audit Committee. Chair of the Audit Committee is Ron Rogers. Parkland is required under applicable securities regulations to have an Audit Committee. The members of the Audit Committee have been determined to be financially literate. The education and experience of each Audit Committee member is detailed at page 20 herein under the heading Audit Committee Information.
- (6) Prior to the Fund reorganizing to a corporate trustee model in 2005, Jim Dinning and David Spencer served as trustees of the Fund since August 19, 2004 and April 30, 2002, respectively.
- (7) Mr. Pantelidis made a private equity investment in Tattoo Footwear Inc. and joined the board of that company in 2003. In the 12 month period following the sale of his shares and departure from the board of Tattoo Footwear Inc., the company went into receivership.
- (8) Chairman of the Board of Directors.
- (9) From 2000 to mid-2002 Mr. Rogers represented Shaw Communications on the board of directors of G.T. Telecom. At a subsequent date G.T. Telecom filed bankruptcy proceedings.
- (10) Member of the Project Drive Advisory Committee. Chair of the Project Drive Advisory Committee is James Pantelidis.

## Officers and Senior Management

The following table sets forth the names, jurisdiction of residence, principal occupations or employment for the preceding five years of each of the officers and senior management of Parkland.

Name and Jurisdiction of Residence	Principal Occupation During the Five Preceding Years
Michael W. Chorlton <sup>(1)</sup> Red Deer, Alberta, Canada	Chief Executive Officer of Parkland. President and Chief Executive Officer of Parkland from September, 2005 to March 15, 2011. Vice President of Renessen LLC prior thereto.
Robert B. Espey <sup>(1)(2)</sup> Red Deer, Alberta, Canada	President and Chief Operating Officer of Parkland. Chief Operating Officer of Parkland from November 10, 2008 to March 15, 2011. President and Chief Executive Officer of FisherCast Global Corporation from June 2008 to August 20, 2008. Mr. Espey was Executive Vice President of FisherCast Global Corporation prior thereto.
Kenneth J. Grondin Red Deer, Alberta, Canada	Senior Vice President and Chief Financial Officer of Parkland from July, 2009 to present. Chief Financial Officer for Nygard International Ltd. prior thereto.
Stewart T. MacPhail <sup>(3)</sup> Red Deer, Alberta, Canada	Executive Vice President, Corporate Development of Parkland.
Bradley D. Williams <sup>(3)</sup> Red Deer, Alberta, Canada	Senior Vice President, Commercial Business Group of Parkland.
R. G. Dean Mackey Red Deer, Alberta, Canada	Senior Vice President, Human Resources and Administration, and Chief Privacy Officer of Parkland since January, 2009. Vice President, Human Resources for Americredit Financial Services prior thereto.
William S. Sanford <sup>(4)</sup> Porters Lake, Nova Scotia, Canada	President, Bluewave since February, 2010. President & Chief Executive Officer of Bluewave Energy Limited Partnership prior thereto.
Robert J. Fink Calgary, Alberta, Canada	General Counsel and Corporate Secretary since July, 2010. General Counsel and Corporate Secretary of FortisAlberta Inc. prior thereto.
Donna J. Strating Red Deer, Alberta, Canada	Vice President, IT and Chief Information Officer since April, 2010. Chief Operating Officer for Acrodex Inc. prior thereto. Chief Information Officer for Alberta Health Services prior thereto.
Kenneth S. Ashacker Calgary, Alberta, Canada	Vice President, Parkland Retail Fuels since June, 2010. President of Ashacker Consulting group prior thereto. Senior Director Strategic Planning and Marketing Insight for Prizm Income Trust prior thereto.
Shaun M. Peesker Red Deer, Alberta, Canada	Treasurer since April, 2007. Chief Financial Officer for High Arctic Energy Services prior thereto.
Karen A. Putnam <sup>(5)</sup> Halifax, Nova Scotia, Canada	Vice President, Corporate Development of Parkland since February 2010. Vice President, Corporate Development and Chief Financial Officer of Bluewave Energy Limited Partnership prior thereto.
Andrew Cruickshank Red Deer, Alberta, Canada	Vice President, Finance since June 2010. Vice President, Finance for UFA Cooperative Limited prior thereto.

### Notes:

- (1) On December 3, 2010, Mr. Chorlton announced his intention to resign as a director and as President and Chief Executive Officer of Parkland, effective May 1, 2011, and Mr. Robert B. Espey, the Chief Operating Officer of Parkland was named as his successor. As a transitional measure, on March 15, 2011, Mr. Espey was appointed President and Chief Operating Officer and Mr. Chorlton was appointed Chief Executive Officer.
- (2) Robert B. Espey, prior to November 10, 2008 was President and CEO of FisherCast Global Corporation. Mr. Espey was an officer of FisherCast when it filed for protection on June 4, 2008 under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") and became President and Chief Executive Officer during the period of protection. Pursuant to a CCAA order issued on August 20, 2008, the assets of FisherCast were sold and the proceeds of such sale were distributed. Mr. Espey resigned as President and Chief Executive Office of FisherCast on August 27, 2008. FisherCast Global Corporation became bankrupt on August 28, 2010.
- (3) Bradley D. Williams and Stewart T. MacPhail have been in similar occupations with Parkland over the last five years.

- (4) William S. Sanford became employed with Parkland on February 1, 2010 with the acquisition by Parkland of the business of Bluewave. Mr. Sanford was employed as President & Chief Executive Officer of Bluewave Energy Limited Partnership prior thereto.
- (5) Karen A. Putnam became employed with Parkland on February 1, 2010 with the acquisition by Parkland of the business of Bluewave. Ms. Putnam was employed as Vice President, Corporate Development and Chief Financial Officer of Bluewave.

As of March 24, 2011, the directors and senior management of Parkland, as a group, beneficially owned, or controlled or directed, directly or indirectly, 1,260,697 Common Shares, representing approximately 2% of the issued and outstanding Common Shares.

## **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

### **Corporate Cease Trade Orders**

To the knowledge of the Corporation, no director or executive officer of the Corporation, is as at the date hereof or has been, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company that: (i) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an order that was issued after the director, executive officer or chief financial officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### **Corporate Bankruptcies**

To the knowledge of the Corporation, other than as set forth in the tables under the heading "*Directors and Officers*", no director, executive officer or controlling securityholder of the Corporation is, as of the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Personal Bankruptcies**

To the knowledge of the Corporation, no director, executive officer or controlling securityholder of the Corporation has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

### **Penalties or Sanctions**

To the knowledge of the Corporation, no Director, executive officer or controlling securityholder of the Corporation has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **REGISTRAR AND TRANSFER AGENT**

The transfer agent and registrar for the Common Shares is Valiant Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

## **INTERESTS OF EXPERTS**

As at the date hereof, the partners and associates of PricewaterhouseCoopers LLP, Chartered Accountants, the external auditors of the Corporation, as a group, did not beneficially own, directly or indirectly, any of the outstanding Common Shares.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Corporation is not aware of any material legal proceedings or regulatory actions to which the Corporation is a party or in respect of which any of the Corporation's property are, nor are any such proceedings known by the Corporation to be contemplated.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There are no material interests, direct or indirect, of any of the directors and executive officers of Parkland, or any known associate or affiliate of any such person, or, to the best knowledge of the directors and executive officers of the Corporation, of any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares or any known associate or affiliate of any such person, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

## **ADDITIONAL INFORMATION**

Additional information concerning the Corporation is available through the Internet on SEDAR which may be accessed at [www.sedar.com](http://www.sedar.com). Copies of such information may also be obtained without charge, on the Corporation's website at [www.parkland.ca](http://www.parkland.ca) or by request to the Corporate Secretary, at the office of the Corporation at Suite 236, Riverside Office Plaza, 4919 – 59<sup>th</sup> Street, Red Deer, Alberta, Canada T4N 6C9; by telephone at (403) 357-6400; and by facsimile at (403) 352-0042.

Additional information, including directors and officers remuneration and securities authorized for issuance under equity compensation plans, is contained in the information circular for Parkland's most recent annual meeting of security holders that involved the election of directors. Additional financial information is provided in Parkland's annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2010. Copies of such documents are filed and available on SEDAR at [www.sedar.com](http://www.sedar.com) and may be obtained in the manner set forth above.

## APPENDIX 1

### MANDATE OF THE AUDIT COMMITTEE

#### 1. Overall Purpose / Objective

The Audit Committee is appointed by the Board of Directors of Parkland (the "**Corporation**") to assist the Board in discharging its oversight responsibilities. The Audit Committee will oversee the financial reporting process with a goal of ensuring the balance, transparency and integrity of published financial information of Parkland. The Audit Committee will also review: the effectiveness of Parkland's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditor of Parkland; the Corporation's process for monitoring compliance with laws and regulations affecting financial reporting.

Parkland will comply with the policies and procedures overseen or reviewed by the Audit Committee and use their best efforts to ensure that these policies and procedures are implemented.

In performing its duties, the Audit Committee will maintain effective working relationships with the Board of Directors, management and the external auditors. To perform his or her role effectively, each Audit Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Audit Committee's responsibilities and of the Corporation's business operations and risks.

The members of the Audit Committee will be financially literate and independent as defined by Multilateral Instrument 52-110.

Although the Audit Committee has the powers and responsibilities set forth in this Mandate, the role of the Audit Committee is oversight. The members of the Audit Committee are not full-time employees of the Corporation and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity nor are they experts in performing other tasks they are called on to perform by this Mandate. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles ("**GAAP**") and applicable rules and regulations. These are the responsibilities of management and the external auditor.

#### 2. Authority

The Board authorizes the Audit Committee, within the scope of its responsibilities, to:

- (a) Perform activities within the scope of this Mandate;
- (b) Engage and compensate independent counsel and other advisers as it deems necessary to carry out its duties;
- (c) Ensure the attendance of Corporate Officers at meetings as appropriate;
- (d) Request and gain access to members of management, employees and relevant information to perform this Mandate;
- (e) Establish procedures for dealing with the confidential, anonymous submissions by employees of the Corporation regarding accounting, internal control or auditing matters;
- (f) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters;

- (g) Approve the appointment, compensation, retention and annual scope of work of the external auditor;
- (h) Approve all engagement fees and terms as well as reviewing policies for the provision of audit and non-audit services by the external auditors and the pre-approval of such non-audit work as required by Multilateral Instrument 52-110; and
- (i) Communicate directly with the external auditors.

### **3. Organization**

#### **Membership**

- (a) The Board of Directors will appoint the Audit Committee members and the Chair of the Audit Committee.
- (b) The Audit Committee will comprise at least three members and all members will be independent within the meaning set forth in Multilateral Instrument 52-110 Audit Committees as amended from time to time, non-executive Directors of the Corporation.
- (c) A quorum for any meeting of the Audit Committee will be two members.
- (d) Each member should have skills and experience appropriate to the Corporation's business.
- (e) Each member will be financially literate as defined by Multilateral Instrument 52-110.
- (f) Members will be appointed for a one year term of office.
- (g) Each member of the Audit Committee shall be financially literate within the meaning set forth under MI 52-110.
- (h) A member of the Audit Committee shall ipso facto cease to be a member of the Audit Committee upon ceasing to be a director of the Corporation.

#### **Meetings**

- (a) Only Audit Committee members are entitled to attend meetings. The Audit Committee may invite such other persons to its meetings as it deems necessary.
- (b) The external auditors will be invited to make presentations to the Audit Committee as appropriate.
- (c) Meetings will be held not less than four times a year and should correspond with the Corporation's financial reporting cycle.
- (d) Other meetings may be convened as required by the Audit Committee or the external auditors.
- (e) The secretary of the Audit Committee will circulate the agenda and supporting documentation to the Audit Committee members at a reasonable period in advance of each meeting.
- (f) The secretary of the Audit Committee will circulate the minutes of meetings to members of the Board, members of the Audit Committee, and where appropriate to the external auditors.

- (g) At least one member of the Audit Committee will attend the Board meeting at which the financial statements are approved.
- (h) Members of the Audit Committee should make every attempt to be available for every meeting of the Audit Committee in person or by conference call.
- (i) The Audit Committee may call a meeting with outside legal counsel if it is deemed necessary.
- (j) The Audit Committee will meet with the external auditor without management present at each meeting of the Audit Committee that the external auditor attends. Even if this meeting is only to determine that there are no issues that need to be discussed without management.
- (k) The Audit Committee shall meet with the external auditors at least quarterly and otherwise as it deems appropriate to consider any matter that the Audit Committee or the external auditors determine should be brought to the attention of the Board or shareholders.

#### **4. Roles and Responsibilities**

The Audit Committee will:

##### **Internal control**

- (a) Have oversight responsibility for management reporting on internal controls;
- (b) Review with the external auditors of the Corporation the adequacy of internal control procedures and management information systems and make inquiries to management of the Corporation and the external auditors of the Corporation about significant risks and exposures to the Corporation that may have a material adverse impact on the Corporation's financial statements and about the efforts of the management of the Corporation to mitigate such risks and exposures;
- (c) Review recommendations made by the external auditors; and
- (d) Monitor policies and procedures relating to directors' and officers' expenses and the reimbursement thereof and relating to any perquisites paid to directors and officers.

##### **Financial Reporting**

- (a) Gain an understanding of the current areas of greatest financial and internal control risk and of how these are being managed;
- (b) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports;
- (c) Oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements MD & A, and relevant news releases or announcements and any other financial information related to the Corporation to be provided to shareholders prior to their release;
- (d) Recommend for approval to the Board the Corporation's audited annual and interim financial statements, related management's discussion and analysis and earnings news releases;
- (e) Meet with management and the external auditors to review the financial statements and the key accounting policies and judgments;

- (f) Review with the external auditors of the Corporation and/or management of the Corporation the results of the annual audit, and make appropriate recommendations to the Board having regard to, among other things:
  - (i) the financial statements;
  - (ii) management's discussion and analysis and related financial disclosure contained in continuous disclosure documents;
  - (iii) significant changes, if any, to the initial audit plan;
  - (iv) accounting and reporting decisions relating to significant current year events and transactions;
  - (v) the management letter, if any, outlining the external auditors' findings and recommendations, together with management's response, with respect to internal controls and accounting procedures; and
  - (vi) any other matters relating to the conduct of the audit, including such other matters which should be communicated to the Committee under generally accepted auditing standards.
- (g) Review significant adjustments, material unadjusted differences, significant disagreements with management and critical accounting policies and practices and the Corporation's responses to these queries; and
- (h) Ensure its compliance with all of the applicable requirements of MI 52-110 and for reporting any non-compliance with such requirements to the Board, including the reasons for such non-compliance.

#### **Annual Operating and Capital Budgets**

- (a) Review the annual operating and capital budgets and recommend approval to the Board.

#### **Compliance with Laws and Regulations**

- (a) Review the effectiveness of the system for monitoring compliance with laws and regulations;
- (b) Obtain regular updates from management regarding compliance matters that may have a material impact on the Corporation's financial statements or compliance policies;
- (c) Review the reports of management on regulatory compliance matters related to the business of the Corporation in the preparation of the financial statements; and
- (d) Review the findings of material reports by regulatory agencies.

#### **Working with Auditors**

- (a) Advise the external auditors of their accountability to the Audit Committee and the Board as representatives of the shareholders of the Corporation to whom the external auditors are ultimately accountable. The external auditors of the Corporation shall report directly to the Audit Committee;
- (b) Review the professional qualification of the auditors, including background and experience of partner and auditing personnel;

- (c) Ensure compliance by the Corporation's external auditors with the requirements set forth in National Instrument 52-108 Auditor Oversight;
- (d) Ensure that the Corporation's external auditors are participants in good standing with the Canadian Public Accountability Board ("**CPAB**") and participate in the oversight programs established by the CPAB from time to time and that the external auditors have complied with any restrictions or sanctions imposed by the CPAB as of the date of the applicable auditor's report relating to the Corporation's annual audited financial statements;
- (e) Obtain from the external auditors of the Corporation a formal written statement describing in detail all of the relationships between the external auditors and the Corporation, determine whether the non-audit services performed by the external auditors during the year have impacted their independence, ensure that no relationship between the external auditors and the Corporation exists which may affect the independence of the external auditors and take appropriate action to ensure the independence of the external auditors;
- (f) Review on an annual basis the performance of the external auditors and make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditors;
- (g) Review all correspondence and memoranda relating to all audit and non-audit engagements provided by external auditors in relation to the Corporation's present circumstances and changes in regulatory and other requirements;
- (h) Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information;
- (i) Ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on;
- (j) Discuss with the external auditor the appropriateness of the accounting policies applied in the Corporation's financial reports and/or any significant changes to the Corporation's accounting policies, principles or practices;
- (k) Meet separately with the external auditors to discuss any matters that the Audit Committee or auditors believe should be discussed privately. Ensure the auditors have access to the Chair of the Audit Committee when required;
- (l) Review policies for the provision of non-audit services by the external auditors and, if required, the pre-approval of such non-audit work;
- (m) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
- (n) Review management's proposed internal control plan for the coming year and ensure that there is appropriate co-ordination with the external auditor; and
- (o) Perform all other functions required of Audit Committees by applicable regulatory authorities in connection with the termination or resignation of an auditor;

## Reporting Responsibilities

- (a) Regularly update the Board about Audit Committee activities and make appropriate recommendations;
- (b) Ensure the Board is aware of matters brought to the attention of the Audit Committee that may significantly impact on the financial condition or affairs of the Corporation;
- (c) Prepare any reports required by regulations on the Audit Committee's Mandate and activities to be included in the section on Corporate Governance in the Annual Report; and
- (d) Review the disclosure contained in the Corporation's annual information form as required by Form 52-110F1 Audit Committee Information Required in an AIF attached to MI 52-110. If management of the Corporation solicits proxies from shareholders of the Corporation for the purpose of recommending persons to be elected as directors of the Corporation, the Audit Committee shall be responsible for ensuring that the Corporation's information circular includes a cross-reference to the sections in the Corporation's annual information form that contain the information required by Form 52-110F1 Certification of Annual Filings and Interim Filings.
- (e) Ensure the preparation and filing of each annual certificate in Form 52-109F1 and each interim certificate in Form 52-109F2 to be signed by each of the Chief Executive Officer and Chief Financial Officer of the Corporation in accordance with the requirements set forth under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings as amended from time to time;
- (f) Ensure that management of the Corporation establishes and maintains disclosure controls and procedures for the Corporation that are designed to provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to management of the Corporation by others within those entities, particularly during the period in which the annual filings or interim filings are being prepared and that management of the Corporation establishes and maintains internal control over financial reporting for the Corporation that has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Corporation's generally accepted accounting principles. In respect of annual filings only, the Audit Committee is also responsible for ensuring that management of the Corporation evaluates the effectiveness of the Corporation's disclosure controls and procedures as of the end of the period covered by the annual filings and has caused the Corporation to disclose in the annual management's discussion and analysis its conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation. The terms "annual filings," "interim filings," "disclosure controls and procedures" and "internal control over financial reporting" shall have the meanings set forth under MI 52-109 -; and
- (g) Monitor any changes in the Corporation's internal control over financial reporting and for ensuring that any change that occurred during the Corporation's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting is disclosed in the Corporation's annual management's discussion and analysis.

### **Evaluating Performance**

- (a) Evaluate the Audit Committee's own performance, both of individual members and collectively, on an annual basis; and
- (b) Assess the achievements of the duties of the Audit Committee specified in the Mandate and report the findings to the Board.

### **5. Review of the Audit Committee Mandate**

The Compensation and Corporate Governance Committee, with input by all Board members and management, will review these terms of reference at least annually or, where circumstances warrant, at such shorter intervals as is necessary, to determine if further additions, deletions or other amendments are required.