

**Parkland Fuel Corporation**  
Consolidated Financial Statements  
For the year ended December 31, 2015

## Management's responsibility for the consolidated financial statements

The consolidated financial statements and the notes to the consolidated financial statements are the responsibility of the management of Parkland Fuel Corporation. They have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, which have been adopted in Canada. Financial information that is presented in the Management's Discussion and Analysis is consistent with the financial statements.

In preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and are properly reflected in the accompanying financial statements.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements and other financial information contained in this report. In order to ensure that management fulfills its responsibilities for financial reporting we have established an organizational structure that provides appropriate delegation of authority, division of responsibilities, and selection and training of properly qualified personnel. Management is also responsible for the development of internal controls over the financial reporting process.

The Board of Directors (the "Board") is assisted in exercising its responsibilities through the audit committee (the "Committee") of the Board. The Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

PricewaterhouseCoopers LLP, the independent auditors appointed by the shareholders, have audited Parkland Fuel Corporation's consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Committee to discuss the audit and their related findings as to the integrity of the financial reporting process.

(signed) *"Robert B. Espey"*

**Robert B. Espey**  
President and Chief Executive Officer

(signed) *"Michael S.H. McMillan"*

**Michael S.H. McMillan**  
Chief Financial Officer

March 2, 2016

## Independent auditor's report

To the Shareholders of  
Parkland Fuel Corporation

We have audited the accompanying consolidated financial statements of Parkland Fuel Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parkland Fuel Corporation and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

(signed) *"PricewaterhouseCoopers LLP"*

### **PricewaterhouseCoopers LLP**

Chartered Professional Accountants  
Calgary, Alberta, Canada

March 2, 2016

**Parkland Fuel Corporation**  
**Consolidated Balance Sheets**

(In 000's of Canadian Dollars)	December 31, 2015	December 31, 2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 16)	36,710	203,264
Restricted cash	321	1,833
Accounts receivable (Note 7)	314,263	442,218
Inventories (Note 8)	117,403	121,579
Income tax receivable	4,768	1,373
Risk management (Note 16)	4,801	4,897
Prepaid expenses and other	42,932	12,044
	<b>521,198</b>	<b>787,208</b>
Property, plant and equipment (Note 9)	499,873	359,505
Intangible assets (Note 10)	192,611	163,833
Goodwill (Note 11)	533,941	179,607
Long-term receivables (Note 12)	22,941	13,682
Other long term assets (Note 13)	13,258	12,829
Deferred tax asset (Note 24)	34,840	15,127
	<b>1,818,662</b>	<b>1,531,791</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness	15,325	5,969
Accounts payable and accrued liabilities	349,127	327,425
Dividends declared and payable	8,479	7,432
Deferred revenue	11,685	7,540
Long-term debt - current portion (Note 14)	4,413	2,448
Convertible debentures - current portion (Note 15)	-	43,694
Asset retirement obligations - current portion (Note 20)	20,790	7,851
Risk management (Note 16)	3,563	5,166
Other long-term liabilities - current portion	1,029	3,350
	<b>414,411</b>	<b>410,875</b>
Long-term debt (Note 14)	441,040	435,054
Other long-term liabilities	8,200	14,744
Asset retirement obligations (Note 20)	94,641	52,735
Refinery and terminal remediation accrual (Note 21)	13,778	13,455
Deferred tax liability (Note 24)	33,962	35,077
	<b>1,006,032</b>	<b>961,940</b>
<b>Shareholders' Equity</b>		
Shareholders' capital (Note 22)	857,534	584,856
Contributed surplus	18,986	6,339
Accumulated other comprehensive income	17,761	2,188
Deficit	(81,651)	(23,532)
	<b>812,630</b>	<b>569,851</b>
	<b>1,818,662</b>	<b>1,531,791</b>

Contingencies and commitments (Note 28)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:

(signed) "James Pantelidis"

**James Pantelidis**  
Chairman of the Board

March 2, 2016

(signed) "Ron Rogers"

**Ron Rogers**  
Chairman of the Audit Committee

**Parkland Fuel Corporation**  
**Consolidated Statements of Income**

(In 000's of Canadian Dollars and shares, except per share amounts)	Year ended December 31,	
	2015	2014
Sales and operating revenue	6,299,571	7,527,638
Cost of goods sold, excluding depreciation	5,673,026	6,989,601
Customer finance income	(2,367)	(2,436)
Operating costs (Note 25)	281,189	242,819
Marketing, general and administrative (Note 25)	161,509	132,829
Depreciation and amortization	92,922	75,124
Finance costs (Note 17)	34,892	25,145
Foreign exchange gain (Note 16)	(4,199)	(4,136)
Loss on disposal of property, plant and equipment	1,253	1,156
Loss (gain) on risk management activities (Note 16)	1,574	(2,686)
Earnings before income taxes	59,772	70,222
Income tax expense (recovery) (Note 24)		
Current	27,478	26,585
Deferred	(7,204)	(6,238)
Net earnings	39,498	49,875
Net earnings per share (Note 6)		
- Basic	0.45	0.66
- Diluted	0.45	0.66
Shares outstanding (Note 22)	93,856	82,114

See accompanying notes to the consolidated financial statements

**Parkland Fuel Corporation**  
**Consolidated Statements of Comprehensive Income**

(In 000's of Canadian Dollars)	Year ended December 31,	
	2015	2014
Net earnings	<b>39,498</b>	49,875
Other comprehensive income:		
Items that may be reclassified to consolidated statement of income in subsequent periods:		
Exchange differences on translation of foreign operations	<b>20,672</b>	7,277
Net loss on hedge of net investment in foreign operations, net of tax recovery of \$833 (2014 - tax recovery of \$763)	<b>(5,099)</b>	(5,089)
Other comprehensive income, net of tax	<b>15,573</b>	2,188
Total comprehensive income, net of tax	<b>55,071</b>	52,063

See accompanying notes to the consolidated financial statements

# Parkland Fuel Corporation

## Consolidated Statements of Changes in Equity

(in 000's of Canadian Dollars and shares)	Shareholders' capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total shareholders' equity	Number of shares
At January 1, 2015	584,856	6,339	(23,532)	2,188	569,851	82,114
Net earnings	-	-	39,498	-	39,498	-
Other comprehensive income, net of tax	-	-	-	15,573	15,573	-
Issued on acquisition of Pioneer Energy (Note 23)	150,116	-	-	-	150,116	5,830
Share issuance costs	(170)	-	-	-	(170)	-
Dividends	-	-	(97,617)	-	(97,617)	-
Share incentive compensation	-	21,638	-	-	21,638	-
Issued under dividend reinvestment plan, net of costs	69,344	-	-	-	69,344	2,952
Issued under share option plan	6,186	(519)	-	-	5,667	340
Issued under vesting of restricted share units	4,896	(8,472)	-	-	(3,576)	270
Issued upon conversion of convertible debentures	42,306	-	-	-	42,306	2,350
At December 31, 2015	857,534	18,986	(81,651)	17,761	812,630	93,856
At January 1, 2014	411,503	5,862	12,458	-	429,823	71,795
Net earnings	-	-	49,875	-	49,875	-
Other comprehensive income, net of tax	-	-	-	2,188	2,188	-
Issued on acquisition of SPF Energy Inc.	21,484	-	-	-	21,484	1,163
Dividends	-	-	(85,865)	-	(85,865)	-
Share incentive compensation	-	3,618	-	-	3,618	-
Issued under dividend reinvestment plan, net of costs	60,185	-	-	-	60,185	2,817
Issued under share option plan	5,165	(500)	-	-	4,665	367
Issued under vesting of restricted share units	1,235	(2,641)	-	-	(1,406)	142
Issued upon conversion of convertible debentures	85,284	-	-	-	85,284	5,830
At December 31, 2014	584,856	6,339	(23,532)	2,188	569,851	82,114

See accompanying notes to the consolidated financial statements

**Parkland Fuel Corporation**  
**Consolidated Statements of Cash Flows**

(in 000's of Canadian Dollars)	Year ended December 31,	
	2015	2014
<b>Operating activities</b>		
Net earnings	39,498	49,875
Adjustments for:		
Depreciation and amortization	92,922	75,124
Loss on disposal of property, plant and equipment	1,253	1,156
Share incentive compensation	12,677	4,734
Refinery and terminal remediation accrual	501	496
Accretion expense on asset retirement obligation	2,831	1,972
Change in risk management activities	(1,507)	(3,994)
Change in other long-term liabilities	(900)	4,297
Accretion on convertible debentures	401	2,148
Amortization of deferred financing costs and debt premium	792	1,297
Change in fair value of Redemption Option	2,180	(2,940)
Deferred taxes	(7,204)	(6,238)
Cash expenditures on asset retirement obligation	(3,107)	(1,626)
Net changes in non-cash working capital (Note 19)	82,951	44,889
Cash generated from operating activities	223,288	171,190
<b>Financing Activities</b>		
Long-term debt repayments	(1,477)	(556,993)
Proceeds from long-term debt	1,331	746,230
Convertible debenture repayments (Note 15)	(1,789)	(577)
Dividends paid to shareholders, net of dividend reinvestment plan	(27,227)	(24,473)
Shares issued for cash	5,667	4,665
Share issuance costs	(170)	-
Cash (used in) generated from financing activities	(23,665)	168,852
<b>Investing Activities</b>		
Acquisition of Pioneer Energy (Note 23)	(247,485)	-
Acquisition of North Dakota service stations, net of cash assumed (Note 23)	(17,633)	-
Acquisition of Chevron-branded service stations (2015) (Note 23)	(18,252)	-
Acquisition of other businesses, net of cash assumed (Note 23)	(15,116)	-
Acquisition of SPF Energy Inc., net of cash and bank indebtedness assumed (Note 23)	-	(84,528)
Acquisition of Chevron-branded service stations (2014) (Note 23)	-	(16,446)
Change in long-term receivables	(8,945)	(2,223)
Additions of property, plant and equipment and intangible assets	(72,965)	(50,171)
Proceeds on sale of property, plant and equipment and intangible assets	2,745	3,546
Cash used in investing activities	(377,651)	(149,822)
(Decrease) Increase in net cash	(178,028)	190,220
Net foreign exchange difference	606	628
Net cash at beginning of year	199,128	8,280
Net cash at end of year	21,706	199,128
<b>Represented by:</b>		
Cash and cash equivalents	36,710	203,264
Restricted cash	321	1,833
Bank indebtedness	(15,325)	(5,969)
Net cash	21,706	199,128
<b>Supplementary Cash Flow Information:</b>		
Interest paid	27,545	20,615
Interest received	2,367	2,436
Income taxes paid	30,362	25,011

See accompanying notes to the consolidated financial statements



# **Parkland Fuel Corporation**

## **Notes to the Consolidated Financial Statements**

### **For the year ended December 31, 2015**

In 000's of Canadian Dollars, shares and options, except per share amounts

## **1. CORPORATE INFORMATION**

Parkland Fuel Corporation ("Parkland" or the "Corporation") is an independent marketer and distributor of fuels and lubricants. Parkland delivers refined fuels and other high quality petroleum products to motorists, businesses, consumers and wholesale customers in Canada and the United States. The consolidated financial statements include the accounts of Parkland Fuel Corporation and its wholly-owned subsidiaries.

Parkland Fuel Corporation was incorporated under the laws of the Province of Alberta on March 9, 2010. The Corporation's registered office is located at Suite 100, 4919 – 59th Street, Red Deer, Alberta, T4N 6C9, Canada.

## **2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**

These consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared using the accounting policies in Note 3. These consolidated financial statements have been prepared under the historical cost basis except for certain items recorded at fair value as detailed in the accounting policies disclosed in Note 3. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

These consolidated financial statements have been approved for issue by the Board of Directors on March 2, 2016.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Corporation and the entities it controls. Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, and is a matter of judgment. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated in preparing the consolidated financial statements.

### **(b) Current versus non-current classification**

The Corporation presents assets and liabilities in the consolidated balance sheet based on current or non-current classification. An asset is current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle, it is held primarily for the purpose of trading, it is expected to be realized within twelve months after the reporting period, or it is a cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. A liability is current when it is expected to be settled in the normal operating cycle, it is held primarily for the purpose of trading, it is due to be settled within twelve months after the reporting period, or if there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. Deferred tax assets and liabilities are classified as non-current assets and liabilities. All other assets or liabilities are classified as non-current.

### **(c) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in marketing, general and administrative expenses.

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When the Corporation acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. Identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Corporation re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's groups of cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**(d) Foreign currency translation**

***Functional and presentation currency***

Parkland's presentation currency is Canadian dollars. The Corporation's subsidiaries' functional currency is either the Canadian dollar or the United States ("US") dollar. Functional currency of each subsidiary is the currency of the primary economic environment in which the entity operates.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses of foreign operations are translated into Canadian dollars at the exchange rates applicable on the dates of the transactions. Foreign exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the balance sheet date.

***Transactions and balances***

Transactions in foreign currencies are translated to the respective functional currencies at the exchange rates applicable on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated into its functional currency at the exchange rate at the balance sheet date. Foreign exchange gains or losses are recorded in the consolidated statement of income.

**(e) Cash and cash equivalents**

Cash and cash equivalents consist primarily of cash on hand, deposits held with banks, and other highly liquid investments.

For the purpose of the consolidated statement of cash flows, net cash consists of cash and cash equivalents, restricted cash, and bank indebtedness, as they are considered an integral part of the Parkland's cash management.

**Parkland Fuel Corporation**  
Notes to the Consolidated Financial Statements  
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**(f) Restricted cash**

Restricted cash is cash that has been pledged as collateral or guarantees for certain of Parkland's projects, obligations and agreements.

**(g) Inventories**

Inventories are valued at lower of cost and net realizable value on a weighted average cost basis or first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Vendor rebates are received for high volume inventory purchases and are recorded initially as a reduction to inventory with a subsequent reduction in cost of goods sold when the product is sold. Any inventory write-down for obsolescence or decline in selling prices is reduced from the value of inventory. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

**(h) Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes costs directly attributable to the acquisition of the asset and the cost of replacing part of the plant and equipment if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Corporation depreciates them separately based on their specific useful lives. Likewise, when a major refurbishment, overhaul or inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Subsequent costs are only recognized in the asset's carrying amount or as a separate asset if it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in as an asset retirement cost of the respective asset if the recognition criteria for a provision are met. Refer to asset retirement obligations discussion for further information about the recognized decommissioning provision.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- |                       |                 |
|-----------------------|-----------------|
| • Land                | Not depreciated |
| • Land improvements   | 25 years        |
| • Buildings           | 20 years        |
| • Plant and equipment | 5 to 30 years   |

Assets under finance lease, leasehold improvements and immovable assets located on leased property (including land improvements, buildings and equipment at retail gas stations) are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the remaining term of the lease. Depreciation of an asset begins when it is available for use and in the location and condition necessary for it to be capable of operating in the manner intended.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income as a gain or loss on disposal of property, plant and equipment when the asset is derecognized.

**Parkland Fuel Corporation**  
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The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**(i) Leases**

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement contains a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

***Parkland as a lessee***

A lease is classified as a finance lease or an operating lease at the inception date. A lease that transfers substantially all the risks and rewards incidental to ownership to the Corporation is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property, plant and equipment or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of income. Finance lease obligations are included in long-term liabilities.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that Parkland will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

***Parkland as a lessor***

Leases in which Parkland does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

**(j) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in depreciation and amortization. Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Customer relationships 5 to 13 years
- Trade names 5 to 16 years

## Parkland Fuel Corporation

### Notes to the Consolidated Financial Statements

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- Non-compete agreements 2 to 5 years
- Lease benefit 3 to 14 years
- Software systems 10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

#### **(k) Impairment of non-financial assets**

Parkland assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Parkland estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses, if any, are recognized in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Parkland bases its impairment calculation on budgets and forecast calculations, which are prepared separately for each of the Parkland's CGUs to which the individual assets are allocated, and require the use of estimates. These budgets and forecast calculations generally cover a period of five years. The expected cash flows derived from budgets do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year. Various qualitative assumptions including but not limited to market presence and trends, strength of customer relationships, strength of local management, and degree of variability in cash flows are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The calculation is most sensitive to the discount rate used for the discounted cash flow model, expected future cash inflows, and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates could result in a material change to the consolidated statement of income.

For non-financial assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased, and whether there is a possible reversal of the impairment loss.

Goodwill is tested for impairment annually at December 31 and when circumstances indicate that the carrying value may be impaired.

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Impairment is determined for goodwill by assessing the recoverable amount of each group of CGUs to which the goodwill relates. The groups of CGUs represent the lowest level within the Corporation at which the goodwill is monitored for internal management purposes and is not larger than an operating segment. When the recoverable amount of a group of CGUs is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

**(l) Deferred revenue**

Deferred revenue consists of deposits and prepayments from customers for the purchase of agricultural products not yet delivered. Revenue is recorded when products are delivered to customers.

Revenue from equipment rentals and non-refundable propane tank fees are recorded in deferred revenue and are recognized in revenue on a straight-line basis over the rental period.

**(m) Provisions**

**General**

Provisions are recognized if Parkland has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the date of the consolidated balance sheet, taking into account the risks and uncertainties surrounding the obligation. In some situations, external advice may be obtained to assist with the estimates. Furthermore, future information could change the estimates and thus impact Parkland's consolidated balance sheet and consolidated statement of income.

If the effect of the time value of money is material, provisions are discounted using a pre-tax credit adjusted discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**Asset retirement obligations**

Parkland records an asset retirement obligation ("ARO") provision for all known legal, contractual and constructive obligations at the sites and locations it operates on. ARO for the sites and locations include the obligations related to the removal of Parkland's structures and storage tanks at properties that are leased or owned, and any site restoration or environmental remediation required. Parkland assumes that all leased and owned sites will be remediated and decommissioned when a site is vacated, when a site lease has expired, or when a site has reached the end of its useful life, in absence of an indemnity or contractual agreement. Remediation and decommissioning activities may include environmental assessments, environmental remediation, restoration of the property to a state required by regulation or contract, and removal of certain or all of the infrastructure property, plant and equipment.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Asset retirement obligations are measured at the present value of the expenditures expected to be required to settle the liability using a pre-tax credit adjusted discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an accretion expense in finance costs.

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A corresponding asset retirement cost asset equal to the initial estimate of the liability is capitalized as part of the cost of the related property, plant and equipment asset. Changes in the estimated liability resulting from revisions to expected timing or future decommissioning costs are recognized as a change in the ARO liability and the related asset retirement cost asset in property, plant and equipment. The asset retirement cost asset capitalized in property, plant and equipment is depreciated over the useful life of the related property, plant and equipment asset.

***Refinery and terminal remediation accrual***

Parkland records a refinery and terminal remediation accrual provision for the remediation of the refinery and terminal located in Bowden, Alberta, on the basis that the remediation would be part of a multi-year management plan. Remediation costs were initially estimated using engineering studies conducted in 2007 and the estimate has been updated on an annual basis by the Corporation's environmental group. The provision is measured at the present value of the expenditures expected to be required to settle the liability using a pre-tax credit adjusted discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a finance cost.

**(n) Income taxes**

Tax expenses for the period comprise current and deferred income tax expenses. Income tax expenses are recognized in the consolidated statement of income, except to the extent that they relate to items recognized in other comprehensive income or directly in equity. In these cases, income tax expenses are also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income

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taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**(o) Share incentive compensation and share-based payments**

The Corporation has two share option plans, two restricted share units ("RSUs") plans, and a deferred share units ("DSUs") plan. The costs of these share-based payments are included in marketing, general and administrative expenses.

***Share options***

Parkland has two share option plans under which Parkland may issue from treasury, together with any other compensation arrangement, an amount not to exceed 10% of the issued and outstanding common shares: the Share Option Plan and the Penny Plan Stock Option Plan. The eligible participants are officers or employees of the Corporation. The exercise price is set by the Board of Directors at the time of grant, provided that the exercise price shall not be less than fair market value of the common shares. Share options are accounted for as equity-settled transactions.

Under the Share Option Plan, each annual vesting tranche is considered a separate award with its own vesting period and grant date fair value. Fair value of each annual vesting tranche is measured at the date of grant using the Black-Scholes option pricing model, which is affected by the Parkland's share price as well as assumptions regarding a number of variables on the date of grant, including expected life of the award, volatility, dividend yield, and forfeiture rate. Share option expense is recognized over the tranche's vesting period with a related credit to contributed surplus. Forfeiture rates, which are estimated at the time of grant and based on historical experience, are incorporated into the assumptions. Forfeitures for the stock options are estimated on the grant date and revised if the actual forfeitures differ from previous estimates.

Under the Penny Plan Stock Option Plan, stock options granted under this plan vest on a fixed basis at 100% only when specific entity performance criteria such as non-acquired Adjusted EBITDA improvement and total Adjusted EBITDA targets are met. Adjusted EBITDA is calculated as net earnings added by 1) finance costs, 2) loss (gain) on disposal of property, plant and equipment, 3) income tax expense, 4) unrealized loss (gain) from the change in fair value of commodities swaps and forward contracts, US dollar forward exchange contracts and future contracts, 5) unrealized loss (gain) on foreign exchange, 6) acquisition, integration and other costs, and 7) depreciation and amortization. The fair value of the vesting tranche is measured at the date of grant using the Black-Scholes option pricing model, which is affected by the Corporation's share price as well as assumptions regarding a number of variables on the date of grant. Share option expense is recognized over the tranche's vesting period with a related credit to contributed surplus. Forfeiture rates, which are estimated at the time of grant and based on historical experience, are incorporated into the assumptions. Forfeitures for the stock options are estimated on the grant date and revised if the actual forfeitures differ from previous estimates.

The contributed surplus balance is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

***Restricted share units***

Parkland awards RSUs to certain directors, officers and employees under two plans: the Restricted Share Unit Plan and the Penny Plan Restricted Share Unit Plan. The units are awarded under both plans at no cost to the recipient and the fair market value determined at the date of the grant is expensed uniformly over their vesting period. The fair market value of the award is based on the volume weighted average trading price for the shares



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on the Toronto stock exchange for the five trading days immediately preceding the date of grant. Restricted share units are accounted for as equity-settled transactions.

Units from the Restricted Share Unit Plan are earned over a three year period with vesting at the third anniversary of the grant. The number of shares earned can range from 0% to 200% of the grant amount based on entity performance criteria, specifically Total Shareholder Return ("TSR") ranking versus a specified peer group of companies. Additional RSUs are granted upon each dividend payment made by the Corporation. Units from the Penny Plan Restricted Share Unit Plan vest on a fixed basis at 100% only when specific entity performance criteria such as non-acquired Adjusted EBITDA improvement and total Adjusted EBITDA targets are met.

Restricted share unit expense is recognized over the vesting period with a related credit to contributed surplus. Forfeiture rates, which are estimated at the time of grant and based on historical experience, are incorporated into the assumptions. Forfeitures for the RSUs are estimated on the grant date and revised if the actual forfeitures differ from previous estimates. The contributed surplus balance is reduced as RSUs are redeemed through a credit to share capital.

#### ***Deferred share units***

Parkland awards DSUs to non-executive members of the Board of Directors as a long-term incentive plan. Under this plan, each director is entitled to receive DSUs as a result of a grant or in lieu of directors' fees. Furthermore, directors receive additional DSUs upon each dividend payment made by the Corporation. The fair value of the DSUs on the grant day is based on the weighted average trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of the grant. DSUs vest immediately on the date of grant and they are redeemed for cash when the director ceases to be a member of the Board of Directors. DSUs are accounted for as cash-settled transactions as a liability measured based on the trading price of Parkland's shares on the Toronto Stock Exchange, and changes in the fair value of the outstanding DSU liability, including deemed dividend equivalents, are included in marketing, general and administrative expenses.

#### **(p) Risk management assets and liabilities**

Risk management assets and liabilities include outstanding commodities swaps and forward contracts, future contracts, and US dollar forward exchange contracts. Parkland periodically enters into derivative contracts which are believed to be economically effective at managing exposure to movements in commodity prices and US dollar exchange rates. While these derivative contracts form a component of Parkland's overall risk management program, they are not accounted for as hedges under IFRS because they have not been documented as such, or do not qualify under IFRS.

#### **(q) Financial instruments**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities measured at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Corporation has classified its financial instruments as follows:

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<b>Classification</b>	<b>Financial instrument</b>
Financial assets at fair value through profit or loss	<ul style="list-style-type: none"> <li>• Risk management assets</li> <li>• Redemption Options</li> </ul>
Loans and receivables	<ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• Restricted cash</li> <li>• Accounts receivable</li> <li>• Long-term receivables, including dealer loans and forgivable loans to dealers and customers</li> </ul>
Held-to-maturity investments	<ul style="list-style-type: none"> <li>• None</li> </ul>
Available-for-sale financial assets	<ul style="list-style-type: none"> <li>• None</li> </ul>
Financial liabilities at fair value through profit or loss	<ul style="list-style-type: none"> <li>• Risk management liabilities</li> </ul>
Financial liabilities measured at amortized cost	<ul style="list-style-type: none"> <li>• Bank indebtedness</li> <li>• Accounts payable and accrued liabilities</li> <li>• Dividends declared and payable</li> <li>• Long-term debt, excluding portion of long-term debt designated as net investment hedge</li> <li>• Convertible debentures</li> <li>• Other long-term liabilities, excluding DSU liability</li> </ul>
Derivatives designated as hedging instruments in an effective hedge	<ul style="list-style-type: none"> <li>• Portion of long-term debt designated as net investment hedge</li> </ul>

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are initially recognized at fair value on the trade date (i.e., the date that the Corporation commits to purchase or sell the asset) and subsequently carried at fair value. Changes in fair value are recognized in loss (gain) on risk management activities or finance costs on the consolidated statement of income.

Embedded derivatives in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the host contracts are not designated at fair value through profit or loss. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of the financial asset out of the fair value through profit or loss category. Parkland's Senior Unsecured Notes contain Redemption Options which have been accounted for as an embedded derivative financial instrument under IFRS (the "Redemption Options").

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs. A discount may be applied to the amount expected to be received to reduce the loans and receivables to fair value. Loans and receivables are subsequently measured at amortized cost using the effective interest method less a provision for impairment. Accounts receivables are reduced by provisions for estimated bad debts which are determined by reference to past experience and expectations.

# **Parkland Fuel Corporation**

## **Notes to the Consolidated Financial Statements**

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#### ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss are initially recognized at fair value and subsequently carried at fair value. Changes in fair value are recognized in loss (gain) on risk management activities on the consolidated statement of income.

#### ***Financial liabilities measured at amortized cost***

All financial liabilities measured at amortized costs are initially recognized at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in finance costs on the consolidated statement of income when the liabilities are derecognized as well as through the effective interest rate amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included as finance costs on the consolidated statement of income.

#### ***Derivatives designated as hedging instruments in an effective hedge***

Parkland is using a net investment hedge to mitigate foreign exchange risk. The effective portion of the hedge is recognized in other comprehensive income. The gain and loss relating to the ineffective portion is recognized in the consolidated statement of income. Gains and losses accumulated in equity are included in the consolidated statement of income when the control in the foreign operation is lost.

#### ***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

#### ***Derecognition***

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or when the Corporation transfers its rights to receive cash flows from the asset and the associated risks and rewards to a third party. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

#### ***Impairment of financial assets***

Parkland assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the loss is the difference between the carrying amount of the account and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

# Parkland Fuel Corporation

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#### **(r) Fair value measurement**

Parkland's financial assets and liabilities that are measured at fair value through profit and loss are categorized by level according to the significance of the inputs used in making the measurements in a three-level hierarchy. The fair value measurement hierarchy levels are defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

Parkland's recurring measurements of the commodities swaps and forward contracts, future contracts, US dollar forward exchange contracts and Redemption Options were at fair value based on Level 2 inputs. Parkland used the following techniques to value financial instruments categorized in Level 2:

- The fair value of the outstanding NYMEX New York Harbour or WTI to heating oil, gasoline and refined products put and call option contracts are determined using external counterparty information, which is compared to observable data.
- The fair value of commodities forward contracts, future contracts and US dollar forward exchange contracts are determined using independent price publications, third party pricing services, market exchanges and investment dealer quotes.
- Parkland used interest rate swaps to limit its credit risk by executing counterparty risk procedures which include transacting only with financial institutions within Parkland's Credit Facility (see Note 14). The fair value of the interest rate swap was determined using external counterparty information, which is compared to observable data. The interest rate swaps expired on June 30, 2014.
- The fair value of the Redemption Options are determined using a valuation model based on inputs from observable market data, including independent price publications, third party pricing services, and market exchanges.

For the purpose of fair value disclosures, Parkland has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

#### **(s) Revenue recognition**

Parkland recognizes revenue on its sale of goods and services when significant risks and rewards of ownership of the goods have passed to the purchaser, usually when physical delivery has occurred, and collection is reasonably assured. The major categories of revenue include gas and diesel fuel, crude oil, natural gas and liquids, propane and butane, lubricants, agricultural and convenience store products. Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns. Volume discounts are assessed based on anticipated annual purchases. Parkland operates two loyalty programs in its retail segment where customers accumulate earnings for purchases made that can be used to redeem free products. The cost of loyalty programs are recognized as a reduction to revenue. Revenue is recognized on unclaimed earnings from non-active or deactivated customer accounts.

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**(t) Customer finance income and finance costs**

Customer finance income is recognized as it accrues in the consolidated statement of income, using the effective interest method.

Finance costs include interest expense on borrowings, accretion on asset retirement obligation and refinery and terminal remediation, change in the fair value of the Redemption Option and amortization of debt premium arising from the Redemption Option, gain on interest rate swaps due to de-designation of profits of the hedging item and change in the fair value of interest rate swap and interest income related to term deposits. All borrowing costs are recognized in the consolidated statement of income using the effective interest method, except for those amounts capitalized as part of the cost of qualifying property, plant and equipment.

**(u) Dividends**

Dividends to Parkland's shareholders are recognized as liabilities on the consolidated balance sheet as dividends declared and payable when the dividends are declared and approved by Parkland's Board of Directors.

**(v) Earnings per share**

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Sources of dilutive potential common shares include convertible debentures and share options. The dilutive effect of share options is determined using the treasury stock method.

**(w) Significant accounting estimates, assumptions and judgments**

The preparation of Parkland's consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. Parkland based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of Parkland. Such changes will be reflected in the assumptions when they occur.

The following areas on the consolidated financial statements have the most significant effect from estimates, assumptions and judgments, and affect all of Parkland's operating segments:

***Asset retirement obligations and refinery and terminal remediation accrual***

Asset retirement obligations and refinery and terminal remediation accrual represent the present value estimate of Parkland's cost to remediate the sites. Asset retirement obligations are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax credit adjusted discount rate that reflects current market assessments of the time value of money and the risks specific to the obligations.

# **Parkland Fuel Corporation**

## **Notes to the Consolidated Financial Statements**

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Parkland applies judgment in assessing the existence and extent as well as the expected method of remediation and decommissioning at the end of each reporting period. Parkland also uses judgment to determine whether the nature of the activities performed is related to decommissioning and remediation activities or normal operating activities. In addition, these provisions are based on estimated costs, which take into account the anticipated method and extent of remediation, technological advances, possible future use of the site, regulatory considerations, environmental considerations and safety considerations. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience, prices and closure plans. The estimated timing of future decommissioning and remediation may change due to certain factors, including closure plans and regulatory considerations. Changes to estimates related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

#### ***Contingencies and legal matters***

Contingencies, by their nature, are subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies, which include legal matters, involves a significant amount of judgment including assessing whether a present obligation exists and providing a reliable estimate of the amount of cash outflow required in settling the obligation. Parkland is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations, and determine that the loss can be reasonably estimated. The uncertainty involved with the timing and amount at which a contingency will be settled may have a material impact on the consolidated financial statements of future periods to the extent that the amount provided for differs from the actual outcome.

#### ***Business combinations***

Parkland uses judgment in applying the acquisition method of accounting for business combinations and estimates to value identifiable assets and liabilities at the acquisition date. Parkland may engage independent third parties to determine the fair value of property, plant and equipment and intangible assets. Estimates are used to determine cash flow projections, including the period of future benefit, and future growth and discount rates, among other factors. The value placed on the acquired assets and liabilities will have an effect on the amount of goodwill that Parkland may record on an acquisition.

#### ***Determination of CGUs***

A CGU is the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared resources and assets, and the way in which management monitors the operations.

#### ***Indicators of impairment***

Parkland performs a calculation to determine the recoverability of non-financial assets when there is an indication that an asset may be impaired. The assessment of whether there is any indication that an asset may be impaired is performed at the end of each reporting period, and requires the application of judgment and usage of external and internal sources of information.

#### ***Impairment of non-financial assets***

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation

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is based on a discounted cash flow model. The cash flows are derived from budget for the first year and forecast for the next four years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill, property, plant and equipment and intangible assets recognized by Parkland.

***Depreciation and amortization***

Depreciation and amortization of property, plant and equipment and intangible assets incorporate estimates of useful lives and residual values. These estimates are based on past experience and industry norms. These estimates may change as more experience is obtained or as market conditions change.

***Risk management assets, risk management liabilities and redemption options***

The fair value of these financial instruments is determined by using third-party models, independent price publications, market exchanges, investment dealer quotes and valuation methodology that utilize observable data. Actual values may differ from these estimates.

***Accounts receivable***

Parkland regularly performs a review of outstanding accounts receivable balances greater than 90 days past due to determine eventual collectability. If an account is deemed uncollectable, a provision for bad debt is recorded. Parkland also analyzes the bad debt provision regularly to determine if any of the accounts provided for should be written off. These accounts which are deemed uncollectible could materially change as a result of changes in a customer's financial situation.

***Income taxes***

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before the deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. Parkland maintains provisions for uncertain tax positions using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Parkland reviews the adequacy of these provisions at the end of each reporting period.

***Leases – Parkland as a lessor***

In determining whether substantially all of the significant risks and rewards of ownership on certain Parkland's long-term tank leases are transferred to the customer or remain with Parkland, judgment is applied to appropriately account for the arrangements as finance or operating leases. These judgments pertain to the classification of the leases as property, plant and equipment or net investment in finance lease on the consolidated balance sheet.

## **4. CHANGE IN ACCOUNTING POLICIES**

**Annual Improvements 2010-2012 Cycle and Annual Improvements 2011-2013 Cycle**

These improvements were applicable for annual periods beginning on or after July 1, 2014 and Parkland adopted these amendments in these consolidated financial statements effective January 1, 2015. They include improvements to IFRS 2 – Share-based Payment, IFRS 3 – Business Combinations, IFRS 8 – Operating Segments, IFRS 13 – Fair Value Measurement, IAS 16 – Property, Plant and Equipment, IAS 24 – Related Party

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Disclosures and IAS 38 – Intangible Assets. The adoption of these amendments did not have a significant impact on the Corporation's consolidated financial statements.

## **5. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Corporation's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Corporation reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

### **(a) IAS 1 – Presentation of Financial Statements**

On December 18, 2014, the IASB issued amendments to IAS 1 – Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports, and will be effective for annual periods beginning on or after January 1, 2016. The amendments are not expected to have a significant impact on the consolidated financial statements.

### **(b) IFRS 9 – Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The new standard introduces requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and the fair value of an entity's own debt. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Parkland has not yet determined the impact of this standard on the consolidated financial statements and has not decided whether to early adopt this standard.

### **(c) IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more relevant disclosures. IFRS 15 supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and a number of revenue-related interpretations and applies to annual reporting periods beginning on or after January 1, 2018. Application of the standard is mandatory for all IFRS reporters and early adoption is permitted. Parkland has not yet determined the impact of this standard on the consolidated financial statements and has not decided whether to early adopt this standard.

### **(d) IFRS 16 – Leases**

In January 2016, the IASB issued IFRS 16, which requires lessees to recognize assets and liabilities for most leases on their balance sheet. Lessor accounting is substantially unchanged from the existing accounting in IAS 17 – Leases. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 – Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. Parkland has not yet determined the impact of this standard on the consolidated financial statements and has not decided whether to early adopt this standard.



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**6. NET EARNINGS PER SHARE**

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Net earnings - basic and diluted	<b>39,498</b>	49,875
Weighted average number of common shares	<b>87,107</b>	75,857
Effects of dilution from		
- Share options	<b>273</b>	201
Weighted average number of common shares adjusted for the effect of dilution	<b>87,380</b>	76,058
Net earnings per share		
- Basic	<b>0.45</b>	0.66
- Diluted	<b>0.45</b>	0.66

In computing the diluted net earnings per share amounts for the year ended December 31, 2014, the impact of convertible debentures was excluded as their effect was antidilutive. There were no convertible debentures outstanding as at December 31, 2015.

**7. ACCOUNTS RECEIVABLE**

	<b>December 31, 2015</b>	December 31, 2014
Trade accounts receivable	<b>243,950</b>	338,678
Miscellaneous, government and other non-trade accounts receivable	<b>79,134</b>	114,711
Allowance for doubtful accounts	<b>(8,821)</b>	(11,171)
	<b>314,263</b>	442,218

Trade accounts receivable, net of the allowance for doubtful accounts is \$235,129 (December 31, 2014 – \$327,507).

**8. INVENTORIES**

	<b>December 31, 2015</b>	December 31, 2014
Gas and diesel	<b>50,041</b>	49,434
Lubricants	<b>27,941</b>	29,703
Crude oil	<b>5,355</b>	12,441
Agricultural inputs	<b>5,112</b>	4,744
Natural gas and natural gas liquids	<b>623</b>	3,059
Propane and butane	<b>14,535</b>	18,737
Other	<b>13,796</b>	3,461
	<b>117,403</b>	121,579

For the year ended December 31, 2015, the amount of inventory recognized as cost of goods sold amounted to \$5,603,745 (December 31, 2014 – \$6,894,071). Inventory write downs recognized as an expense as at December 31, 2015 is \$1,170 (December 31, 2014 – \$3,973).

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**9. PROPERTY, PLANT AND EQUIPMENT**

	Land	Land improvements	Buildings	Assets under finance lease	Plant and equipment	Asset retirement costs	Total
<b>Cost</b>							
At January 1, 2015	41,762	34,161	87,210	4,138	402,940	48,508	618,719
Additions	1,660	689	14,166	-	46,479	-	62,994
Change in asset retirement obligation	-	-	-	-	-	3,355	3,355
Additions due to acquisitions (Note 23)	46,841	9,590	38,562	-	43,004	-	137,997
Disposals	(3,020)	(416)	(1,841)	(2,177)	(8,517)	-	(15,971)
Exchange differences	974	570	1,855	-	8,513	1,236	13,148
At December 31, 2015	88,217	44,594	139,952	1,961	492,419	53,099	820,242
<b>Depreciation and impairment</b>							
At January 1, 2015	-	7,715	33,422	2,542	200,758	14,777	259,214
Depreciation	-	1,593	8,027	166	46,772	9,854	66,412
Disposals	-	(280)	(1,095)	(2,182)	(5,960)	(1,369)	(10,886)
Exchange differences	-	71	428	-	4,838	292	5,629
At December 31, 2015	-	9,099	40,782	526	246,408	23,554	320,369
<b>Net book value</b>							
At December 31, 2015	88,217	35,495	99,170	1,435	246,011	29,545	499,873

	Land	Land improvements	Buildings	Assets under finance lease	Plant and equipment	Asset retirement costs	Total
<b>Cost</b>							
At January 1, 2014	37,103	29,148	77,129	8,229	352,672	31,743	536,024
Additions	305	3,249	4,812	-	35,942	-	44,308
Change in asset retirement obligation	-	-	-	-	-	7,728	7,728
Additions due to acquisitions (Note 23)	5,993	1,891	7,255	-	15,466	8,590	39,195
Disposals	(1,906)	(269)	(2,814)	-	(7,512)	-	(12,501)
Transfer	-	-	327	(4,091)	3,761	-	(3)
Exchange differences	267	142	501	-	2,611	447	3,968
At December 31, 2014	41,762	34,161	87,210	4,138	402,940	48,508	618,719
<b>Depreciation and impairment</b>							
At January 1, 2014	-	6,722	29,682	5,911	168,042	6,323	216,680
Depreciation	-	933	5,181	516	33,605	10,093	50,328
Disposals	-	(174)	(1,521)	-	(6,094)	(1,689)	(9,478)
Transfers	-	-	165	(3,885)	3,717	-	(3)
Exchange differences	-	234	(85)	-	1,488	50	1,687
At December 31, 2014	-	7,715	33,422	2,542	200,758	14,777	259,214
<b>Net book value</b>							
At December 31, 2014	41,762	26,446	53,788	1,596	202,182	33,731	359,505

As at December 31, 2015, Parkland had assets under construction of \$13,232 (December 31, 2014 – \$8,269) consisting primarily of assets related to construction and upgrades of retail stations within the Retail Fuels and Parkland USA segments.

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**10. INTANGIBLE ASSETS**

	Customer relationships	Trade names	Non-compete agreements	Lease benefit	Software systems	Total
<b>Cost</b>						
At January 1, 2015	238,228	20,540	6,575	1,869	23,935	291,147
Additions	47	-	-	-	9,924	9,971
Additions due to acquisitions (Note 23)	13,416	11,271	11,953	283	-	36,923
Disposals	-	-	-	-	(666)	(666)
Exchange differences	9,034	1,600	90	61	-	10,785
At December 31, 2015	260,725	33,411	18,618	2,213	33,193	348,160
<b>Amortization and impairment</b>						
At January 1, 2015	104,224	8,272	5,886	991	7,941	127,314
Amortization	20,215	1,883	1,477	589	2,517	26,681
Disposals	-	-	-	-	(41)	(41)
Exchange differences	1,328	235	26	6	-	1,595
At December 31, 2015	125,767	10,390	7,389	1,586	10,417	155,549
<b>Net book value</b>						
At December 31, 2015	134,958	23,021	11,229	627	22,776	192,611

  

	Customer relationships	Trade names	Non-compete agreements	Lease benefit	Software systems	Total
<b>Cost</b>						
At January 1, 2014	191,417	12,245	6,111	1,550	18,072	229,395
Additions	-	-	-	-	5,863	5,863
Additions due to acquisitions (Note 23)	43,594	7,725	432	297	-	52,048
Exchange differences	3,217	570	32	22	-	3,841
At December 31, 2014	238,228	20,540	6,575	1,869	23,935	291,147
<b>Amortization and impairment</b>						
Balance, as at January 1, 2014	84,438	6,570	5,050	452	5,874	102,384
Amortization	19,559	1,662	832	538	2,067	24,658
Exchange differences	227	40	4	1	-	272
At December 31, 2014	104,224	8,272	5,886	991	7,941	127,314
<b>Net book value</b>						
At December 31, 2014	134,004	12,268	689	878	15,994	163,833

**11. GOODWILL**

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Balance, beginning of period	179,607	132,493
Acquisition of Pioneer Energy (Note 23)	326,893	-
Acquisition of North Dakota services stations (Note 23)	7,646	-
Acquisition of Chevron-branded service stations (2015) (Note 23)	8,837	-
Acquisition of other businesses (Note 23)	2,825	-
Acquisition of Chevron-branded service stations (2014) (Note 23)	-	9,885
Acquisition of SPF Energy Inc. (Note 23)	-	34,548
Exchange differences	8,133	2,681
Balance, end of period	533,941	179,607

The Corporation tested goodwill for impairment as at December 31, 2015 and no impairment of goodwill was identified. The recoverable amount of each group of CGUs was determined on a value in use basis. Value in use

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is calculated using a five year period pre-tax cash flow projection based on the approved budget for the first year and forecast for the next four years.

The goodwill balance of \$533,941 has been allocated to groups of CGUs as follows:

	<b>December 31, 2015</b>	December 31, 2014
Retail Fuels	<b>20,716</b>	11,791
Pioneer Energy	<b>326,893</b>	-
Commercial Fuels	<b>94,998</b>	94,674
Supply and Wholesale (formally Wholesale, Supply and Distribution)	<b>13</b>	13
Elbow River	<b>35,900</b>	35,900
Parkland USA (formally SPF Energy)	<b>55,421</b>	37,229
	<b>533,941</b>	179,607

The most sensitive key assumptions used in calculating the recoverable amount for each group of CGUs is as follows:

- Discount rates – Discount rates represent the current market assessment of the risks specific to each group of CGUs, taking into consideration the time value of money and individual risk of the underlying assets that have been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Corporation and its groups of CGUs and is derived from its weighted average cost of capital (“WACC”). The pre-tax discount rate applied to cash flow projections is 15.0% for the Parkland USA group of CGUs and 12.2% for all other groups of CGUs.
- Growth rates – The growth rates used to extrapolate the projected cash flows beyond the approved budget for the first year is an average of 3.3% for the Parkland USA group of CGUs, 1.7% for Commercial Fuels group of CGUs, and an average of 1.0% for all other groups of CGUs (2014 – 2.0% for all groups of CGUs). The growth rate used to extrapolate projected cash flows for all groups of CGUs in the terminal period is 2.0% (2014 – 2.0%).

The Corporation believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the groups of CGUs.

## **12. LONG-TERM RECEIVABLES**

Long-term receivables consist of dealer loans, forgivable loans to dealers and customers, and amounts receivable from suppliers:

	<b>December 31, 2015</b>	December 31, 2014
Dealer loans	<b>2,220</b>	2,634
Forgivable loans to dealers and customers	<b>18,748</b>	11,048
Amounts receivable from suppliers	<b>1,973</b>	-
Long-term receivables	<b>22,941</b>	13,682

Dealer loans receivable are repayable in monthly instalments of \$141 (December 31, 2014 – \$222), bear interest at rates ranging from 0% to 5% (December 31, 2014 – 0% to 6%) and are secured by specific assets of the borrower.

Forgivable loans to dealers and customers are secured by specific assets of the dealers and customers and are amortized based on the volume of fuel product purchased from Parkland or on a straight-line basis over the term

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of the agreement. Under the volume of fuel product purchased method, a portion of the loan is recognized as a reduction of sales and operating revenue for every litre of fuel product purchased by the dealer or customer.

Dealer loans and forgivable loans to dealers and customers classified in current assets as accounts receivable were \$1,681 and \$3,311 respectively (December 31, 2014 – \$887 and \$2,509).

### 13. OTHER LONG-TERM ASSETS

	December 31, 2015	December 31, 2014
Redemption Option (Note 16)	9,140	11,320
Other	4,118	1,509
Other long-term assets	13,258	12,829

### 14. LONG-TERM DEBT AND CREDIT FACILITIES

	December 31, 2015	December 31, 2014
Credit Facility (a)	36,676	30,743
Unamortized discount: deferred financing costs	(313)	(918)
	36,363	29,825
Senior Unsecured Notes (b)		
5.5% Notes, due 2021	200,000	200,000
Unamortized premium: Redemption Option	2,583	2,986
Unamortized discount: deferred financing costs	(4,005)	(4,603)
6.0% Notes, due 2022	200,000	200,000
Unamortized premium: Redemption Option	4,574	5,102
Unamortized discount: deferred financing costs	(4,187)	(4,629)
	398,965	398,856
Finance lease obligations (c)	1,377	1,580
Collateralized notes (d)	8,748	7,204
Other loans	-	37
	10,125	8,821
Total long-term debt	445,453	437,502
Less: current portion	(4,413)	(2,448)
Long-term debt	441,040	435,054

The following table provides an analysis of the estimated principal repayments of long-term debt:

	2016	2017	2018	2019	2020	Thereafter	Interest included in minimum lease payments	Total
Credit Facility (a)	-	-	36,676	-	-	-	-	36,676
Senior Unsecured Notes (b)	-	-	-	-	-	400,000	-	400,000
Finance lease obligations (c)	1,060	163	66	66	66	318	(362)	1,377
Collateralized notes (d)	4,079	698	1,856	473	225	1,417	-	8,748
	5,139	861	38,598	539	291	401,735	(362)	446,801

#### (a) Credit Facility

A revolving extendible credit facility (the "Credit Facility") agreement was last amended on June 30, 2014 to extend the maturity to June 30, 2018. The facility is extendible each year for a rolling four-year period at the

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option of Parkland. If the Credit Facility is not extended past the maturity date of June 30, 2018, all amounts outstanding are repayable on the maturity date.

The Credit Facility includes the following components:

- i) A revolving operating loan with interest only payable to a maximum of \$320,000 and US\$30,000 (December 31, 2014 – \$320,000 and US\$30,000) less the value of letters of credit issued. As at December 31, 2015, the outstanding borrowings totalled \$36,676 (December 31, 2014 – \$30,743). The revolving operating loan bears interest at prime plus 1.00% (December 31, 2014 – prime plus 0.75%), Bankers' Acceptance rate plus 2.00% (December 31, 2014 – Bankers' Acceptance rate plus 1.75%) or LIBOR rate plus 2.00% (December 31, 2014 – LIBOR rate plus 1.75%). The interest rate as at December 31, 2015 was 3.70% for prime-based loans (December 31, 2014 – 3.75%) and 1.99% to 2.42% for LIBOR loans (December 31, 2014 – 1.98% to 1.99%). As of December 31, 2015, there were no Bankers' Acceptance based loans outstanding.
- ii) A letter of credit facility to a maximum of \$100,000 and US\$10,000 (December 31, 2014 – \$100,000 and US\$10,000). At December 31, 2015, outstanding balances for letters of credit totalled \$14,931 (December 31, 2014 – \$7,145), which mature at various dates up to November 30, 2016.

The revolving operating loan incurs standby fees for any unused portion of the facility at a rate of 0.300% to 0.619% (December 31, 2014 – 0.300% to 0.619%) depending on the ratio of funded debt to earnings (including pre-acquisition earnings) before finance costs, taxes and depreciation and amortization, gain (loss) on disposal of property, plant and equipment, non-cash stock based compensation, non-recurring transactions related to earnings (losses), cash payments related to non-cash charges that were added back previously, unrealized (gain) loss from foreign exchange and unrealized (gain) loss from the change in fair value of commodities swap and forward contracts, future contracts and US dollar forward exchange contracts included in risk management activities ("Credit Facility EBITDA" – as defined under the terms of the credit facility). Security on the Credit Facility is the assignment of insurance and a floating charge demand debenture for \$900,000 creating a first floating charge over all of the undertaking, property and assets of Parkland.

At December 31, 2015, Parkland was in compliance with all debt covenants. Debt covenant ratios are tested on a trailing four quarter Credit Facility EBITDA basis. Financial covenants of the Credit Facility are as follows:

1. Ratio of Senior Funded Debt to Credit Facility EBITDA shall not exceed 3.00 to 1.00 during the second and third quarters and shall not exceed 3.50 to 1.00 during the first and fourth quarters of Parkland's fiscal year;
2. Ratio of Total Funded Debt to Credit Facility EBITDA shall not exceed 4.00 to 1.00 during the second and third quarters and shall not exceed 4.50 to 1.00 during the first and fourth quarters of Parkland's fiscal year; and
3. Credit Facility Fixed Charge Coverage Ratio at each quarter shall not be less than 1.15 to 1.00.

At December 31, 2015, the Corporation provided \$758,907 (December 31, 2014 – \$577,891) of unsecured guarantees to counterparties of commodity and US dollar forward exchange contracts used in natural gas liquids and crude oil purchases and supply agreements.

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#### **(b) Senior Unsecured Notes**

On May 29, 2014 and November 21, 2014, the Corporation completed private placements of senior unsecured notes due May 28, 2021 and November 21, 2022, respectively, each with an aggregate principal amount of \$200,000 (the "Senior Unsecured Notes"). The Senior Unsecured Notes issued on May 29, 2014 bear interest of 5.5% per annum, payable semi-annually in arrears on May 28, and November 28 of each year until maturity. The Senior Unsecured Notes issued on November 21, 2014 bear interest of 6.0% per annum, payable semi-annually in arrears on May 21 and November 21 of each year until maturity. The Senior Unsecured Notes are guaranteed by Parkland subsidiaries and are unsecured obligations.

At December 31, 2015, Parkland was in compliance with all of the covenants limiting Parkland's ability to:

- Incur additional debt;
- Make certain restricted payments and investments;
- Create liens;
- Enter into transactions with affiliates; and
- Consolidate, merge, transfer or sell all or substantially all of its property and assets.

Deferred financing costs have been accounted for as a reduction of Senior Unsecured Notes and amortized over the remaining term of the Senior Unsecured Notes using the effective interest rate method.

#### **(c) Finance leases**

The finance leases carry interest rates ranging from 3.4% to 6.6% (December 31, 2014 – 3.4% to 10.2%). The leases are for land, buildings and equipment with a net book value of \$1,435 (December 31, 2014 – \$1,596), and mature at various dates ending up to July 2022.

#### **(d) Collateralized notes**

On January 8, 2014, in connection with the acquisition of SPF Energy Inc., the Corporation assumed \$7,901 of collateralized notes held by SPF Energy Inc. The collateralized notes are held with various financial institutions, carry fixed interest rates ranging from 2.44% to 6.24%, are denominated in US dollars and are secured by various real estate and equipment of SPF Energy Inc. Payments are due monthly with maturity dates ranging from 2016 to 2028. At December 31, 2015, the outstanding amounts due on the collateralized notes were \$8,748 (December 31, 2014 – \$7,204).

## **15. CONVERTIBLE DEBENTURES**

On December 1, 2009, Parkland issued \$97,750 principal amount of 6.5% series 1 convertible unsecured subordinated debentures ("Series 1 Debentures"), at a price of \$1 per debenture. Interest on the Series 1 Debentures was paid semi-annually in arrears, on November 30 and May 31 in each year commencing May 31, 2010. Series 1 Debentures were convertible at the option of the holder at any time into common shares of the Corporation at a conversion price of \$14.60 per share. The Series 1 Debentures matured on November 30, 2014.

On December 21, 2010, Parkland issued \$45,000 principal amount of 5.75% series 2 convertible unsecured subordinated debentures ("Series 2 Debentures"), at a price of \$1 per debenture. Interest on the Series 2 Debentures is paid semi-annually in arrears, on June 30 and December 31 in each year commencing June 30, 2011. Series 2 Debentures were convertible at the option of the holder at any time into common shares of the Corporation at a conversion price of \$18.00 per share. The Series 2 Debentures matured on December 31, 2015. During the year ended December 31, 2015, the principal amount converted to common shares was \$42,306, and the cash repaid to holders upon maturity was \$1,789. No amounts are outstanding as at December 31, 2015.

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The following table provides a reconciliation of the principal amount and carrying amount of the convertible debentures:

	January 1, 2015 to December 31, 2015		January 1, 2014 to December 31, 2014	
	Principal amount of convertible debentures	Carrying value of convertible debentures	Principal amount of convertible debentures	Carrying value of convertible debentures
<b>Series 1 Debentures</b>				
Balance, beginning of period	-	-	84,990	83,239
Conversion to common shares	-	-	(84,413)	(84,413)
Cash payout	-	-	(577)	(577)
Change due to passage of time	-	-	-	1,751
Balance, end of period	-	-	-	-
<b>Series 2 Debentures</b>				
Balance, beginning of period	44,095	43,694	44,967	44,168
Conversion to common shares	(42,306)	(42,306)	(872)	(872)
Cash payout	(1,789)	(1,789)	-	-
Change due to passage of time	-	401	-	398
Balance, end of period	-	-	44,095	43,694
Total convertible debentures, end of period	-	-	44,095	43,694

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

### (a) Fair value measurement hierarchy

The following table presents information about the financial assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy of the valuation techniques used:

	Fair value at December 31, 2015			Total
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Redemption Options	-	9,140	-	9,140
Risk management assets				
Commodities swaps and forward contracts	-	4,566	-	4,566
US dollar forward exchange contracts	-	235	-	235
Total risk management assets	-	4,801	-	4,801
Risk management liabilities				
Commodities swaps and forward contracts	-	(136)	-	(136)
US dollar forward exchange contracts	-	(3,427)	-	(3,427)
Total risk management liabilities	-	(3,563)	-	(3,563)



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	Fair value at December 31, 2014			Total
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Redemption Options	-	11,320	-	11,320
Risk management assets				
Commodities swaps and forward contracts	-	4,897	-	4,897
Total risk management assets	-	4,897	-	4,897
Risk management liabilities				
Commodities swaps and forward contracts	-	(331)	-	(331)
US dollar forward exchange contracts	-	(776)	-	(776)
Future contracts	-	(4,059)	-	(4,059)
Total risk management liabilities	-	(5,166)	-	(5,166)

**(b) Fair values of risk management contracts**

The following table summarizes the notional amounts and fair values of risk management contracts outstanding:

Type	Settlement dates	Notional average monthly volume (bbl)	Price (\$/bbl)	Fair value at December 31, 2015
Crude and Heavy Oil	January - March 2016	366,400	19.89 – 60.35	2,546
	April - June 2016	280,967	24.58 – 27.41	928
	July - September 2016	257,500	26.78 – 29.20	1,172
	October - December 2016	257,500	28.32 – 30.18	794
Liquid Petroleum Gases	January - March 2016	149,157	14.23 – 34.55	(1,126)
	April - June 2016	15,500	14.15 – 23.73	(144)
	July - September 2016	14,000	14.83 – 19.74	(37)
	October - December 2016	1,000	17.87 – 19.74	(6)
Refined Fuels	January - March 2017	1,000	17.40 – 19.74	(6)
	January - March 2016	467,460	57.54 – 63.11	309
Net commodities swaps and forward contracts				4,430
Type	Settlement dates	Amount (000's of USD)	Forward rates (CAD)	Fair value at December 31, 2015
US dollar forward exchange contracts	January - March 2016	429	1.1156 – 1.3974	(1,457)
	April - June 2016	7,080	1.1947 – 1.3817	(743)
	July - September 2016	3,097	1.2243 – 1.3327	(427)
	October - December 2016	3,090	1.2229 – 1.3315	(429)
	January - March 2017	929	1.2226 – 1.3296	(130)
	April - June 2017	39	1.2333 – 1.2333	(6)
Net US dollar forward exchange contracts				(3,192)
Net fair value of risk management assets and liabilities				1,238
Total risk management assets				4,801
Total risk management liabilities				(3,563)
Net fair value of risk management assets and liabilities				1,238

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**(c) Offsetting risk management positions**

Financial assets and liabilities are only offset if Parkland has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Parkland offsets risk management assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. No additional unrealized risk management positions are subject to an enforceable master netting arrangement or similar agreements that are not otherwise offset.

	December 31, 2015			December 31, 2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Gross amount	7,969	(6,731)	1,238	8,710	(8,979)	(269)
Amount offset	(3,168)	3,168	-	(3,813)	3,813	-
Total risk management assets (liabilities)	4,801	(3,563)	1,238	4,897	(5,166)	(269)

**(d) Cash and cash equivalents**

Cash and cash equivalents comprise the following:

	December 31, 2015	December 31, 2014
Cash	36,710	48,264
Term deposits	-	155,000
	36,710	203,264

**(e) Other financial instruments**

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and dividends declared and payable approximate their fair values as at December 31, 2015 due to the short term nature of these instruments. The carrying value of the long-term receivables approximates fair value as at December 31, 2015, as Parkland currently issues loans and advances to dealers and customers with similar terms. The Senior Unsecured Notes had a carrying value of \$400,000 and an estimated fair value of \$381,971 as at December 31, 2015 (December 31, 2014 – carrying value approximates fair value). The carrying value of other long-term debt approximates fair value as at December 31, 2015 as either the interest rate on the long-term debt is adjusted monthly or the debt was issued recently. The carrying value of other long-term liabilities approximates fair value as at December 31, 2015 as either it is adjusted to its fair value on a quarterly basis or it is related to liabilities recently incurred. The convertible debentures matured on December 31, 2015 and had carrying value and estimated fair value of nil as at December 31, 2015 (December 31, 2014 – carrying value of \$43,694 and estimated fair value of \$43,654).

**(f) Fair value measurement hierarchy transfers**

The Corporation's policy is to recognize transfers between fair value measurement hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year ended December 31, 2015. There were also no changes in the purpose of any financial asset or financial liability that subsequently resulted in a different classification of that asset or liability.

**(g) Redemption Options**

The Senior Unsecured Notes contain Redemption Options that allows Parkland to redeem the notes prior to maturity at a premium. The Redemption Options have been accounted for as an embedded derivative financial instrument under IFRS. On initial recognition on May 29, 2014 and November 21, 2014, the Redemption Options were ascribed fair values of \$3,220 and \$5,160, respectively, which was recorded within other long-term assets in the consolidated balance sheet. On initial recognition, the carrying value of the Senior Unsecured Notes was increased by the fair value of the Redemption Options, which is amortized to finance costs in the consolidated

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statement of income over the term of the Senior Unsecured Notes. The amortization was \$932 for the year ended December 31, 2015 (December 31, 2014 – \$291).

The Redemption Options are fair valued at the end of the reporting period and any change in the fair value is recognized in the consolidated statement of income in finance costs. The fair value of the Redemption Options was \$9,140 as at December 31, 2015 (December 31, 2014 – \$11,320). The change in fair value of the Redemption Options for the year ended December 31, 2015 was a loss of \$2,180 (December 31, 2014 – gain of \$2,940).

**(h) Market risk**

***US dollar currency risk***

Parkland is exposed to foreign currency risk due to fluctuation in the US dollar to Canadian dollar exchange rate, relating to Parkland's operating activities, such as purchasing and selling certain products and services in US dollars, and Parkland's net investments in US subsidiaries. Parkland's risk exposure from its net investment in foreign subsidiaries is partially mitigated through net investment hedges. The following table demonstrates the sensitivity to a \$0.01 change in US dollar to Canadian dollar exchange rates as at December 31, 2015 and 2014 on financial instruments denominated in US dollars with all other variables held constant. The impact on the Corporation's net earnings is driven by changes in the fair value of monetary assets and liabilities, and US dollar forward exchange contracts outstanding. The impact on the Corporation's other comprehensive income, net of tax, is driven by changes in the net investment hedge.

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
\$0.01 increase in USD-CAD exchange rate:		
- Effect on net earnings	<b>292</b>	207
- Effect on other comprehensive income, net of tax	<b>(162)</b>	(227)

***Hedge of net investments in foreign operations***

Parkland's net investment in SPF Energy Inc., which has a US dollar functional currency, presents a foreign currency risk to the Corporation, which has a Canadian dollar functional currency. Parkland is using a net investment hedge to partially mitigate this risk. Parkland has designated US\$26,500 borrowings under the revolving operating loan of the Credit Facility as a hedge of the first US\$26,500 of net investment in SPF Energy Inc. This designation has the effect of partially mitigating the volatility of other comprehensive income by offsetting long-term foreign exchange gains and losses on US dollar denominated long-term debt and gains and losses on the US dollar investment in SPF Energy Inc.

Foreign currency translation of the net earnings of SPF Energy Inc. impacts consolidated net earnings. Foreign currency translation of Parkland's investment in SPF Energy Inc. impacts other comprehensive income. During the year ended December 31, 2015, the effective portion of the net investment hedge recognized in other comprehensive income was an unrealized foreign exchange loss, net of tax, of \$5,099 (2014 – \$5,089), which was used to partially offset the \$20,672 (2014 – \$7,277) gain on translation of the net investment in SPF Energy Inc. There was no ineffectiveness during the years ended December 31, 2015 and 2014.

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**Foreign exchange gain**

The following table details the foreign exchange gain as presented on the consolidated statement of income:

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Unrealized (gain) on foreign exchange	<b>(157)</b>	(432)
Realized (gain) on foreign exchange	<b>(4,042)</b>	(3,704)
<b>Foreign exchange gain</b>	<b>(4,199)</b>	(4,136)

**(i) Commodity price risk**

Commodity price risk is the risk that Parkland is exposed to unfavourable commodity price movements that will result in a financial loss. Parkland enters into derivative instruments to mitigate commodity price risk volatility as part of its risk management strategy. These financial instruments are subject to financial controls, risk management and monitoring procedures. Parkland does not use derivative contracts for speculative purposes. As at December 31, 2015, a 5% change in commodity forward contract pricing, with other variables held constant, would cause an increase or decrease to net earnings of approximately \$3,413 (December 31, 2014 – \$606).

**(j) Interest rate risk**

Interest rate risk is the impact of fluctuating interest rates on earnings, cash flows and valuations. Parkland is exposed to market risk from changes in the Canadian prime interest rate, Bankers' Acceptance rate and LIBOR rate, which can impact its borrowing costs. Parkland monitors and analyzes the interest rate risk on a regular basis and mitigates interest rate risk by considering refinancing, credit line renewals, hedging options and issuing long-term debt at a fixed rate. A 1% change in these interest rates, with all other variables constant, would have caused an increase or decrease to consolidated net earnings for the year ended December 31, 2015 of approximately \$655 (\$434 for the year ended December 31, 2014).

**(k) Credit risk**

Credit risk is the risk that Parkland's counterparties will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Parkland manages its exposure to credit risk through a variety of means, including, but not limited to: i) Rigorous credit granting procedures, which includes reviewing of each new customer's credit history before extending credit and imposing short payment terms or security interests where applicable; ii) Ongoing credit evaluations of its customers, which includes reviewing financial conditions and credit performance of its customers and the industries in which they operate; iii) Ongoing monitoring of outstanding amounts, which includes making a provision when an amount is deemed uncollectible; and iv) Usage of standby and commercial letters of credit for certain customers, where applicable.

Parkland does not have significant credit exposure to any individual customer. While credit risk is minimized by Parkland's broad customer and geographic base, a substantial portion of Parkland's trade accounts receivable and long-term receivables are with customers in the oil and gas, mining and forestry industries, which are subject to normal industry credit risks. The maximum exposure of credit risk of the accounts receivable account is its carrying value. Counterparties for all risk management activities transacted by Parkland are major financial institutions or counterparties with investment grade credit ratings.

As at December 31, 2015, the provision for impairment of credit losses on trade accounts receivable was \$8,821 (December 31, 2014 – \$11,171), and provision for impairment of credit losses on long-term receivables was \$217 (December 31, 2014 – nil). The following table provides the aging analysis of trade accounts receivable, net of allowance for doubtful accounts:

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<b>December 31, 2015</b>	<b>Current or 1-30 days past due</b>	<b>31-60 days past due</b>	<b>61-90 days past due</b>	<b>Over 90 days past due</b>	<b>Total</b>
Trade accounts receivable	215,525	11,958	4,157	12,310	243,950
Allowance for doubtful accounts	(2,514)	(59)	(391)	(5,857)	(8,821)
	<b>213,011</b>	<b>11,899</b>	<b>3,766</b>	<b>6,453</b>	<b>235,129</b>

December 31, 2014	Current or 1-30 days past due	31-60 days past due	61-90 days past due	Over 90 days past due	Total
Trade accounts receivable	305,040	6,941	3,072	23,625	338,678
Allowance for doubtful accounts	(1,693)	(104)	(610)	(8,764)	(11,171)
	<b>303,347</b>	<b>6,837</b>	<b>2,462</b>	<b>14,861</b>	<b>327,507</b>

**(I) Liquidity risk**

Liquidity risk is the risk that Parkland will not be able to meet its financial obligations as they become due. Parkland's cash liquidity is provided by cash flows from operating activities and borrowings available under its Credit Facility and Senior Unsecured Notes (see Note 14). Parkland's process for managing liquidity risk includes ensuring, to the extent possible, that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities, undrawn credit facilities and access to various credit products at competitive rates. Parkland also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of Parkland's working capital needs and sales activities. At December 31, 2015, Parkland has available unused credit facilities in the amount of \$269,749 (December 31, 2014 – \$317,935). Parkland believes it has sufficient funding through the use of its facility to meet foreseeable liquidity requirements.

The following table provides an analysis of contractual maturities for financial liabilities:

<b>December 31, 2015</b>	<b>Less than one year</b>	<b>Years 2 and 3</b>	<b>Years 4 and 5</b>	<b>Thereafter</b>	<b>Total</b>
Bank indebtedness	15,325	-	-	-	15,325
Accounts payable and accrued liabilities	349,127	-	-	-	349,127
Dividends declared and payable	8,479	-	-	-	8,479
Risk management	3,563	-	-	-	3,563
Long-term debt <sup>(1)(2)</sup>	29,258	86,967	46,877	428,995	592,097
Other long-term liabilities	1,029	8,200	-	-	9,229
	<b>406,781</b>	<b>95,167</b>	<b>46,877</b>	<b>428,995</b>	<b>977,820</b>

December 31, 2014	Less than one year	Years 2 and 3	Years 4 and 5	Thereafter	Total
Bank indebtedness	5,969	-	-	-	5,969
Accounts payable and accrued liabilities	327,425	-	-	-	327,425
Dividends declared and payable	7,432	-	-	-	7,432
Risk management	5,166	-	-	-	5,166
Long-term debt <sup>(1)(2)</sup>	26,130	50,742	79,795	451,535	608,202
Convertible debentures <sup>(1)</sup>	46,630	-	-	-	46,630
Other long-term liabilities	3,350	14,744	-	-	18,094
	<b>422,102</b>	<b>65,486</b>	<b>79,795</b>	<b>451,535</b>	<b>1,018,918</b>

<sup>(1)</sup> Undiscounted principal and interest, including current portion

<sup>(2)</sup> Long-term debt includes finance lease obligations

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**17. FINANCE COSTS**

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest on long-term debt	<b>27,066</b>	15,447
Interest and accretion on convertible debentures	<b>2,710</b>	9,456
Amortization of deferred financing costs	<b>1,724</b>	1,597
Accretion on refinery remediation	<b>501</b>	496
Accretion on asset retirement obligation	<b>2,831</b>	1,972
Change in fair value of Redemption Options	<b>2,180</b>	(2,940)
Amortization of debt premium arising from Redemption Options	<b>(932)</b>	(291)
Gain on interest rate swap	<b>-</b>	(348)
Interest income	<b>(1,188)</b>	(244)
<b>Finance costs</b>	<b>34,892</b>	25,145

**18. CAPITAL MANAGEMENT**

Parkland's capital structure is comprised of bank indebtedness, long-term debt including current portion, convertible debentures and shareholders' equity, less cash and cash equivalents and restricted cash. Parkland's objectives when managing its capital structure are to:

- Maintain financial flexibility so as to preserve the Corporation's access to capital markets and its ability to meet its financial obligations; and
- Finance internally generated growth as well as potential acquisitions.

Parkland monitors its capital structure and financing requirements using non-GAAP financial metrics included in its Credit Facility, consisting of: Senior Funded Debt to Credit Facility EBITDA ratio, Total Funded Debt to Credit Facility EBITDA ratio and Credit Facility Fixed Charge Coverage ratio. The metrics are used to monitor and guide the Corporation's overall financial strength and flexibility of capital structure. The Credit Facility EBITDA is defined under the terms of the Credit Facility (see Note 14) and does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies.

Parkland currently targets a Senior Funded Debt to Credit Facility EBITDA ratio and Total Funded Debt to Credit Facility EBITDA ratio of under 2.5 and 3.5, respectively on a long-term basis. This target may be exceeded if strategic acquisitions are available. At December 31, 2015, the Senior Funded Debt to Credit Facility EBITDA and Total Funded Debt to Credit Facility EBITDA ratios were 0.29 and 2.08, respectively (December 31, 2014 – nil and 1.43), calculated as follows:

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	<b>December 31, 2015</b>	December 31, 2014
Senior Funded Debt:		
Long-term debt - current portion	4,413	2,448
Bank indebtedness	15,325	5,969
Long-term debt - non-current portion (excluding Senior Unsecured Notes)	42,075	36,198
Letters of credit and surety bonds	41,193	7,145
Cash and cash equivalents and restricted cash	(37,031)	(205,097)
Senior Funded Debt	65,975	(153,337)
Senior Unsecured Notes	398,965	398,856
Total Funded Debt	464,940	245,519
Credit Facility EBITDA <sup>(1)</sup>	223,852	172,242
Senior Funded Debt to Credit Facility EBITDA Ratio	0.29	-
Total Funded Debt to Credit Facility EBITDA Ratio	2.08	1.43

<sup>(1)</sup> Amounts for trailing twelve months ended December 31, 2015 include Pioneer Energy pro-forma pre-acquisition estimates as if the Pioneer Acquisition had occurred on January 1, 2015, pursuant to the terms of the Credit Facility and for debt covenant calculation purposes only.

Parkland currently targets a Credit Facility Fixed Charge Coverage ratio greater than 2.0. This target may be exceeded if strategic acquisitions are available. At December 31, 2015 the Credit Facility Fixed Charge Coverage ratio was 2.48 (December 31, 2014 – 2.85) calculated on a trailing twelve-month basis as follows:

	<b>Trailing twelve months ended</b>	
	<b>December 31, 2015</b>	December 31, 2014
Credit Facility EBITDA <sup>(1)</sup>	223,852	172,242
Less:		
Maintenance capital expenditures <sup>(1)</sup>	38,680	18,530
Taxes paid <sup>(1)</sup>	34,312	25,011
Adjusted Credit Facility EBITDA	150,860	128,701
Fixed Charges		
Interest <sup>(1)</sup>	33,659	20,615
Distributions	27,227	24,473
Total Fixed Charges	60,886	45,088
Credit Facility Fixed Charge Coverage Ratio	2.48	2.85

<sup>(1)</sup> Amounts for trailing twelve months ended December 31, 2015 include Pioneer Energy pro-forma pre-acquisition estimates as if the Pioneer Acquisition had occurred on January 1, 2015, pursuant to the terms of the Credit Facility and for debt covenant calculation purposes only.

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

## **19. NET CHANGES IN NON-CASH WORKING CAPITAL**

	<b>Year ended December 31</b>	
	<b>2015</b>	2014
Accounts receivable	148,542	105,091
Inventories	28,578	24,281
Income taxes receivable	(3,303)	392
Prepaid expenses and other	(4,157)	165
Accounts payable and accrued liabilities	(90,854)	(84,775)
Deferred revenue	4,145	(265)
Total net changes in non-cash working capital	82,951	44,889

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**20. ASSET RETIREMENT OBLIGATIONS**

	<b>January 1, 2015 to December 31, 2015</b>	January 1, 2014 to December 31, 2014
Asset retirement obligations, beginning of the period	<b>60,586</b>	42,648
Additional provisions made in the period	<b>7,777</b>	8,726
Additions due to acquisitions (Note 23)	<b>52,408</b>	8,590
Amounts used during the period	<b>(3,107)</b>	(1,626)
Unused amounts reversed during the period	<b>(6,255)</b>	(5,460)
Change due to passage of time, foreign exchange and discount rate	<b>4,022</b>	7,708
<b>Asset retirement obligations, end of the period</b>	<b>115,431</b>	60,586
Current	<b>20,790</b>	7,851
Non-current	<b>94,641</b>	52,735
<b>Asset retirement obligations, end of the period</b>	<b>115,431</b>	60,586

The total undiscounted estimated future cash flows required to settle Parkland's asset retirement obligations was \$172,281 at December 31, 2015 (December 31, 2014 – \$88,848). The costs are expected to be paid up to 2046. At December 31, 2015, the discount rates used to determine the present value of the future costs was in the range of 3.77% to 4.64% (December 31, 2014 – 3.84% to 4.21%).

**21. REFINERY AND TERMINAL REMEDIATION ACCRUAL**

	<b>January 1, 2015 to December 31, 2015</b>	January 1, 2014 to December 31, 2014
Refinery remediation accrual, beginning of period	<b>13,455</b>	11,803
Additions during the year	<b>-</b>	1,245
Unused amounts reversed during the year	<b>(387)</b>	(2,783)
Change due to passage of time and discount rate	<b>710</b>	3,190
<b>Refinery remediation accrual, end of period</b>	<b>13,778</b>	13,455

The total undiscounted estimated future cash flows required to settle Parkland's obligation was \$29,516 at December 31, 2015 (December 31, 2014 – \$30,343). The costs are expected to be incurred between 2018 and 2041 (December 31, 2014 – 2018 to 2041). At December 31, 2015, the discount rate used to determine the present value of the future costs was 3.77% (December 31, 2014 – 3.84%).

**22. SHAREHOLDERS' CAPITAL**

**(a) Shareholders' capital**

Authorized capital of Parkland consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series without par value. There are no preferred shares outstanding. Changes to shareholders' capital were as follows:



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	January 1, 2015 to December 31, 2015		January 1, 2014 to December 31, 2014	
	Number of common shares	Amount	Number of common shares	Amount
Shareholders' capital, beginning of period	82,114	\$ 584,856	71,795	\$ 411,503
Issued on acquisitions, net of issue costs	5,830	149,946	1,163	21,484
Issued under dividend reinvestment plan, net of costs	2,952	69,344	2,817	60,185
Issued under share option plan	340	6,186	367	5,165
Issued on vesting of restricted share units	270	4,896	142	1,235
Issued upon conversion of convertible debentures	2,350	42,306	5,830	85,284
Shareholders' capital, end of period	93,856	\$ 857,534	82,114	\$ 584,856

**Dividends**

In January 2011, Parkland launched the Premium Dividend™ and the Enhanced Dividend Reinvestment Plan as a means to incrementally raise equity capital for growth and other corporate purposes.

The Premium Dividend™ provides eligible shareholders with a 2% cash premium on top of their regular cash dividend. Participants electing this option receive a monthly payment of \$0.0918 per share for dividend declared to shareholders of record on and after March 20, 2015, and \$0.0901 per share for dividend declared prior to March 20, 2015.

The Enhanced Dividend Reinvestment Plan allows shareholders to purchase additional shares with their dividend at a 5% discount to the volume weighted average price as defined by the plan.

Shareholders who do not elect to participate in the Premium Dividend™ or the Enhanced Dividend Reinvestment Plan receives a regular monthly dividend of \$0.0900 per share for dividends declared on and after March 20, 2015, and \$0.0883 per share for dividends declared prior to March 20, 2015. The Corporation recognizes the dividend payable related to the Premium Dividend™ and the Enhanced Dividend Reinvestment Plan based on the market value of Parkland's common shares on the day of the payment.

During the year ended December 31, 2015, Parkland declared dividends of \$97,617 (December 31, 2014 – \$85,865). The dividend declared on December 11, 2015 was \$8,406 at \$0.0900 per share and was payable on January 15, 2016 to shareholders of record on December 22, 2015 (2014 – \$7,250 at \$0.0883 per share).

**Shareholder rights plan**

The Shareholder Rights Plan is intended to ensure that in the context of an unsolicited take-over proposal for the common shares of Parkland, the Board of Directors has sufficient time to explore and develop strategic alternatives that are in the best interests of Parkland's investors. The Board of Directors has authorized the issuance of one right in respect of each common share of the Corporation outstanding at the close of business on March 18, 2014 and each share issued thereafter. The rights will become exercisable if a person, together with its affiliates, associates and joint actors, acquires or announces an intention to acquire beneficial ownership of common shares which, when aggregated with its current holdings, total 20 percent or more of the outstanding common shares of the Corporation (determined in the manner set out in the Rights Plan). Following the acquisition of 20 percent or more of the outstanding common shares, each right held by a person other than the acquiring person and its affiliates, associates and joint actors would, upon exercise, entitle the holder to purchase the common shares at a substantial discount to the market price of the common shares at that time.

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**(b) Share options**

Changes in the number of options with their average exercise price per option are summarized below:

	<b>January 1, 2015 to December 31, 2015</b>		January 1, 2014 to December 31, 2014	
	<b>Number of options</b>	<b>Average exercise price per option</b>	Number of options	Average exercise price per option
Share options, beginning of period	2,242	\$ 17.88	1,685	\$ 14.97
Granted	696	24.88	1,222	20.54
Exercised	(341)	16.66	(367)	12.72
Forfeited	(86)	19.81	(298)	18.69
Share options, end of period	2,511	\$ 19.92	2,242	\$ 17.88
Exercisable options, end of period	827	\$ 15.62	655	\$ 14.27

The range of exercise prices and weighted average remaining contractual life relating to share options outstanding are summarized below:

<b>Range of exercise prices</b>	<b>Number of options</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price</b>
\$12.00 – \$15.99	451	4	\$ 12.91
\$16.00 – \$19.99	437	5	17.92
\$20.00 – \$23.99	929	6	20.56
\$24.00 – \$27.99	694	7	24.88
Share options at December 31, 2015	2,511	6	\$ 19.92

Share option expenses included in marketing, general and administrative expenses for the year ended December 31, 2015 were \$1,518 (December 31, 2014 – \$883). Options were exercised on a regular basis throughout the period. The weighted average share price during the period was \$23.32 per share (December 31, 2014 – \$20.61 per share).

The following table lists the inputs to the Black-Scholes valuation models used for the options granted during the years ended December 31, 2015 and 2014:

	<b>Year ended December 31, 2015</b>	Year ended December 31, 2014
Weighted average exercise price and share price at grant date (\$)	24.88	20.54
Volatility (%)	22.73	21.60
Dividend yield (%)	4.34	5.15
Expected life of option (years)	8	8
Annual risk-free interest rate (%)	0.68	1.16
Weighted average fair value per option	\$ 2.17	\$ 1.45

The expected life of the award is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of daily share prices over the last two years is indicative of future trends, which may not necessarily be the actual outcome.

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**(c) Restricted share units**

The following table summarizes RSUs held by directors, officers and employees:

	<b>January 1, 2015 to December 31, 2015</b>		<b>January 1, 2014 to December 31, 2014</b>	
	<b>Number of RSUs</b>	<b>Weighted average share price</b>	<b>Number of RSUs</b>	<b>Weighted average share price</b>
Restricted share units, beginning of period	564	\$ 18.12	548	\$ 14.73
Granted	670	22.75	308	19.27
Dividend equivalents	13	21.87	13	19.31
Issued on vesting	(413)	18.66	(210)	12.57
Forfeited	(50)	19.55	(95)	14.75
Restricted share units, end of period	784	\$ 21.76	564	\$ 18.12

Expenses related to RSUs included in marketing, general and administrative expenses for year ended December 31, 2015 were \$10,075 (December 31, 2014 – \$6,208).

**(d) Deferred share units**

The following table summarizes DSUs held by non-executive members of the Board of Directors:

	<b>January 1, 2015 to December 31, 2015</b>	<b>January 1, 2014 to December 31, 2014</b>
	<b>Number of DSUs</b>	<b>Number of DSUs</b>
Deferred share units, beginning of period	139	120
Granted	29	26
Dividend equivalent	7	7
Redeemed	(17)	(14)
Deferred share units, end of the period	158	139

The liability recorded for DSUs in other long-term liabilities at December 31, 2015 was \$3,674 (December 31, 2014 – \$3,027). Expenses related to DSUs included in marketing, general and administrative expenses for the year ended December 31, 2015 were \$1,084 (December 31, 2014 – \$1,116).

**23. BUSINESS COMBINATIONS**

**(a) Acquisition of Pioneer Energy**

On June 25, 2015, Parkland completed the acquisition of substantially all of the assets and select liabilities comprising the Pioneer Energy business ("Pioneer Energy"), domiciled in Ontario, Canada (the "Pioneer Acquisition"). At the date of acquisition, Pioneer Energy's network consisted of 397 retailer and dealer operated service stations in Ontario and Manitoba, which included 152 Pioneer-branded and 230 Esso-branded service stations. The Pioneer Acquisition is expected to expand the Corporation's retailer and dealer operated service station network and provide access to key markets, material supply synergies and an expandable platform for growth in Ontario and Manitoba.

The revised preliminary fair values of the identifiable assets and liabilities of Pioneer Energy and the purchase consideration are presented below. As at December 31, 2015, the Corporation has not yet finalized the purchase price allocation. In the third and fourth quarter of 2015, the Corporation revised the preliminary working capital adjustment, the preliminary fair values of the identifiable assets, and updated the purchase price equation. The

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result was an decrease of \$4,502 to prepaid expenses and other, a decrease of \$3,164 to property, plant and equipment, an increase of \$1,072 to intangible assets, an increase \$912 to deferred tax assets, an increase of \$7,136 to goodwill and an increase of \$1,454 to purchase consideration transferred. The Corporation has up to one year from the date of acquisition to finalize the fair value of the assets acquired and liabilities assumed, and any further changes to the amounts presented below will be reflected within one year from the acquisition date.

	<b>Pioneer Energy</b>
<b>Assets</b>	
Accounts receivable	15,239
Prepaid expenses and other	28,823
Inventory	19,137
Property, plant and equipment (Note 9)	106,532
Intangible assets (Note 10)	36,923
Deferred tax asset	16,265
	<b>222,919</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	(104,002)
Asset retirement obligations (Note 20)	(48,209)
	<b>(152,211)</b>
Goodwill arising on acquisition (Note 11)	326,893
Purchase consideration transferred	397,601
Fair value analysis of purchase consideration transferred	
Cash paid on date of acquisition	254,090
Cash received on working capital adjustment	(6,605)
Common shares issued on date of acquisition	150,116
Purchase consideration transferred	<b>397,601</b>

The transaction has been accounted for using the acquisition method. The allocation of the purchase price was based on a provisional assessment of the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill. The Corporation engaged independent valuers to determine the fair value allocated to the property, plant and equipment and intangible assets. However, given the timing of the acquisition, the independent valuers have not completed the valuations of certain assets, and therefore the allocation of the purchase price is based on the Corporation's best estimate and is currently considered preliminary. As a result, these amounts are subject to change.

The fair value of accounts receivable amounts to \$15,239. The gross amount of trade receivables was \$15,573. None of the accounts receivable amounts have been impaired and it is expected that the fair value amounts can be collected. Accounts payable and accrued liabilities acquired had a fair value that equal their gross contractual value and expected cash outflow at the acquisition date.

Goodwill arising on acquisition is attributable to the anticipated future revenue from the service stations, expected cash flow benefits attributable to the geographical location and characteristics of the service stations, as well as expected synergies and other benefits from the acquisition. Goodwill has been allocated entirely to the Retail Fuels segment. A deferred tax asset of \$16,265 was recognized for differences between tax and accounting

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values of the property, plant and equipment acquired. Goodwill calculated for tax purposes is expected to be tax deductible at an inclusion rate of 75%.

The Corporation issued 5,830 shares on the date of acquisition as consideration for Pioneer Energy. The fair value of the shares is calculated with reference to the quoted price of the shares of the Corporation as at the date of acquisition, which was \$25.75 per share. The fair value of the share consideration given was therefore \$150,116. The costs of the issuance of shares of \$170 have been charged directly to equity as a reduction in share capital.

The Corporation paid cash of \$254,090 on the date of acquisition as consideration for Pioneer Energy, net of initial purchase adjustments. The working capital adjustment was subject to change to the extent that the final determination of net working capital at the date of acquisition exceeds or is below a pre-determined target level. In September 2015, the Corporation received \$6,605 as part of customary post-closing activities and revised the working capital adjustment from \$8,059 to \$6,605, which resulted in an increase of \$1,454 to purchase consideration transferred and an increase of \$1,454 to goodwill. These adjustments have been applied retrospectively to the acquisition date of June 25, 2015, resulting in a revised purchase consideration transferred amount of \$397,601 and a revised goodwill amount of \$326,893. The purchase consideration may be subject to further change upon completion of further customary post-closing activities.

Revenue and net income of Pioneer Energy included in the consolidated statement of comprehensive income since the acquisition date were \$894,187 and \$20,203, respectively.

#### ***Hold Separate Assets***

On May 29, 2015, the Competition Tribunal of Canada (the "Tribunal") issued an interim order (the "Interim Order") in respect of the application by the Commissioner of Competition (the "Commissioner") that permitted Parkland to close the Pioneer Acquisition. Notwithstanding that closing of the Pioneer Acquisition has occurred, the Interim Order requires that: (i) the Pioneer Energy supply agreements with independent dealers and Pioneer Energy owned corporate sites in six local communities are to be held separate from Parkland's other assets and operations and be managed by an independent third party manager (the "Hold Separate Assets"), and (ii) Parkland maintains the economic viability, marketability and competitiveness of the Parkland supply agreements with independent dealers and Parkland owned corporate sites in six local communities. The Interim Order will continue in effect until the Commissioner's application challenging Parkland's acquisition of Pioneer Energy's assets in 14 communities is resolved or until there is an agreement with the Commissioner in respect of the communities subject to the Interim Order. Parkland is consulting with its advisors to assess its approach to resolving the Commissioner's concerns in each of the 14 communities (including the six communities subject to the Interim Order). Parkland will continue to vigorously contest the Commissioner's application before the Tribunal in the communities where there is no resolution of the dispute. The Commissioner's application challenging Parkland's acquisition of Pioneer Energy's assets is currently scheduled to commence on May 30, 2016. As Parkland does not control the Hold Separate Assets, the equity interest in these assets has been recorded within prepaid expenses and other on the consolidated balance sheet.

#### ***Pioneer Commercial Business***

In connection with the Pioneer Acquisition, the Corporation entered into an agreement (the "Commercial Assets Agreement") with the Vendors providing that Parkland will not, directly or indirectly, in any capacity, own, operate, control or otherwise be involved with the commercial assets of Pioneer or the operations thereof in Ontario, New Brunswick, and Nova Scotia (collectively, the "Pioneer Commercial Assets"). The Pioneer Commercial Assets will continue to be owned, operated and controlled solely by the Vendors and their employees and the Vendors have

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commenced a strategic review and evaluation of opportunities for the Vendors to sell the Pioneer Commercial Assets to a third party in one or more transactions. The Vendors have retained a third party to administer and conduct any sale process involving the Pioneer Commercial Assets. Under the Commercial Assets Agreement, Parkland has an indirect economic interest in the Pioneer Commercial Assets and the proceeds of any disposition thereof. As Parkland does not control these assets, the economic interest in the Pioneer Commercial Assets has been recorded within prepaid expenses and other on the consolidated balance sheet.

**(b) Acquisition of North Dakota service stations**

In April 2015, Parkland completed the acquisition of five service stations located in North Dakota, USA. This acquisition, which increases the size of the Corporation's existing network of service stations in North Dakota acquired in 2014, is expected to support Parkland's growing retail presence in the Bismarck and Dickinson areas. The fair value of the identifiable assets and liabilities of the acquired five North Dakota service stations are presented below.

	<b>North Dakota service stations</b>
Assets	
Inventory	884
Property, plant and equipment (Note 9)	9,587
Deferred tax asset	335
	<b>10,806</b>
Liabilities	
Asset retirement obligations (Note 20)	(819)
	<b>(819)</b>
Goodwill arising on acquisition (Note 11)	7,646
Purchase consideration transferred	<b>17,633</b>
Fair value analysis of purchase consideration transferred	
Cash paid on date of acquisition, net of cash assumed of \$6	17,633
Purchase consideration transferred	<b>17,633</b>

The transaction has been accounted for using the acquisition method. The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill.

Goodwill arising on acquisition is attributable to the anticipated future revenue from the service stations, expected cash flow benefits attributable to the geographical location and characteristics of the service stations, as well as expected synergies and other benefits from the acquisition. Goodwill has been allocated entirely to the Parkland USA segment. A deferred tax asset of \$335 was recognized for differences between tax and accounting values of the property, plant and equipment acquired. Goodwill calculated for tax purposes is expected to be tax deductible over 15 years.

Revenue and net income of the North Dakota service stations included in the consolidated statement of comprehensive income since the acquisition date were \$21,599 and \$1,216 respectively.

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**(c) Acquisition of Chevron-branded service stations (2015)**

On April 7, 2015, Parkland completed the acquisition of eleven Chevron-branded service stations located in British Columbia. This acquisition, which increases the size of the Corporation's existing network of corporately owned Chevron-branded service stations acquired in 2014, is expected to support Parkland's growing retail presence in British Columbia. The fair value of the identifiable assets and liabilities of the acquired eleven Chevron-branded service stations are presented below.

	<b>Chevron-branded service stations</b>
<b>Assets</b>	
Inventory	1,121
Property, plant and equipment (Note 9)	10,356
Deferred tax asset	767
	<b>12,244</b>
<b>Liabilities</b>	
Asset retirement obligations (Note 20)	(2,829)
	<b>(2,829)</b>
Goodwill arising on acquisition (Note 11)	8,837
Purchase consideration transferred	<b>18,252</b>
Fair value analysis of purchase consideration transferred	
Cash paid on date of acquisition	18,252
Purchase consideration transferred	<b>18,252</b>

The transaction has been accounted for using the acquisition method. The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill.

Goodwill arising on acquisition is attributable to the anticipated future revenue from the service stations, expected cash flow benefits attributable to the geographical location and characteristics of the service stations, as well as expected synergies and other benefits from the acquisition. Goodwill has been allocated entirely to the Retail Fuels segment. A deferred tax asset of \$767 was recognized for differences between tax and accounting values of the property, plant and equipment acquired. Goodwill calculated for tax purposes is expected to be tax deductible at an inclusion rate of 75%.

Revenue and net income of the Chevron-branded service stations included in the consolidated statement of comprehensive income since the acquisition date were \$26,850 and \$1,893 respectively.

**(d) Acquisition of other businesses**

In the third and fourth quarters of 2015, the Corporation completed the acquisition of several individually immaterial businesses and service stations complementary to the Corporation's existing lines of business in Alberta and British Columbia, Canada and North Dakota, USA. These acquisitions are expected to support Parkland's growing Retail Fuels, Commercial Fuels and Parkland USA segments. The fair value of the identifiable assets and liabilities of the individually immaterial acquisitions are presented below.

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	<b>Other businesses</b>
<b>Assets</b>	
Accounts receivable	440
Inventory	716
Property, plant and equipment (Note 9)	11,522
Deferred tax asset	209
	<b>12,887</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	(45)
Asset retirement obligations (Note 20)	(551)
	<b>(596)</b>
Goodwill arising on acquisition (Note 11)	2,825
Purchase consideration transferred	15,116
Fair value analysis of purchase consideration transferred	
Cash paid on date of acquisition, net of cash acquired of \$12	15,116
Purchase consideration transferred	15,116

The transactions have been accounted for using the acquisition method. The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill.

Goodwill arising on acquisition is attributable to the earnings capacity of the acquired businesses in excess of the net tangible assets and net intangible assets acquired, the geographic presence of the acquired businesses, the benefits of acquiring the established businesses with certain capabilities in the industry, as well as expected synergies and other benefits from the acquisitions. A deferred tax asset of \$209 was recognized for differences between the tax and accounting of the asset retirement obligation. For the acquisitions in Canada, goodwill calculated for tax purposes is expected to be tax deductible at an inclusion rate of 75%. For the acquisitions in the United States, goodwill calculated for tax purposes is expected to be tax deductible over 15 years.

Revenue and net income of the identifiable assets and liabilities of the individually immaterial acquisitions included in the consolidated statement of comprehensive income since the acquisition date were \$7,296 and \$420, respectively.

**(e) Acquisitions SPF Energy Inc. and Chevron-branded service stations (2014)**

On January 8, 2014, the Corporation completed the acquisition of 100% of outstanding shares of SPF Energy Inc. ("SPF Energy") based in North Dakota, USA. SPF Energy supplies and distributes approximately 1.1 billion litres (300 million gallons) of refined petroleum products through North Dakota, Montana, Minnesota, South Dakota and Wyoming. This acquisition provides Parkland with an expandable platform for growth in the Northwest United States and export opportunities for excess refined product in Western Canada. In addition, it enhances supply capabilities leveraging Elbow River Marketing rail assets.

On April 2, 2014, the Corporation completed the acquisition of twelve Chevron-branded service stations located in northern British Columbia, Canada. The service stations acquired are expected to sell approximately 36 million litres of fuel annually and provide Parkland with access to an additional major retail fuel brand. Chevron's strong



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brand equity will enhance the development of Parkland's dealer business and will support Parkland's growing retail presence in British Columbia.

The finalized fair value of the identifiable assets and liabilities of SPF Energy and Chevron-branded service stations as at the date of acquisition were as follows:

	<b>Chevron-branded service stations (2014)</b>	<b>SPF Energy Inc.</b>
<b>Assets</b>		
Cash	-	2,576
Accounts receivable	-	44,347
Prepaid expenses and other	-	3,177
Inventory	1,604	14,451
Income tax receivable	-	227
Property, plant and equipment (Note 9)	8,193	31,002
Intangible assets (Note 10)	-	52,048
	<u>9,797</u>	<u>147,828</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	-	(32,272)
Deferred revenue	-	(739)
Asset retirement obligations (Note 20)	(3,236)	(5,354)
Bank indebtedness	-	(10,455)
Collateralized notes	-	(7,901)
Deferred tax liability	-	(27,522)
	<u>(3,236)</u>	<u>(84,243)</u>
<b>Goodwill arising on acquisition (Note 11)</b>	<b>9,885</b>	<b>34,548</b>
<b>Purchase consideration transferred</b>	<b>16,446</b>	<b>98,133</b>
<b>Fair value analysis of purchase consideration transferred</b>		
Cash paid	16,446	76,649
Common shares	-	21,484
<b>Purchase consideration transferred</b>	<b>16,446</b>	<b>98,133</b>
<b>Analysis of cash flows on acquisition</b>		
Cash paid	16,446	76,649
Net cash acquired	-	(2,576)
Bank indebtedness assumed	-	10,455
<b>Net cash outflow (included in cash used in investing activities)</b>	<b>16,446</b>	<b>84,528</b>

The transactions have been accounted for using the acquisition method. The allocation of the purchase price was based on the fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisitions, with the excess of the purchase price over the fair value being allocated to goodwill.

On the acquisition of SPF Energy Inc., the fair value of accounts receivable amounts to \$44,347. The gross amount of trade receivables was \$45,726. None of the accounts receivable amounts have been impaired. Accounts payable and accrued liabilities acquired have a fair value that equal their gross contractual value and expected cash outflow at the acquisition date. The goodwill of \$34,548 is attributable to the anticipated future revenue from the expansion of Parkland in the Northwest United States, export opportunities for excess refined product in Western Canada, and expected synergies from combining the assets and liabilities of SPF Energy Inc.

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with those of the Corporation. The total amount of goodwill recognized is not deductible for income tax purposes. Share consideration was calculated using the trading price of \$18.48 per common share.

On the acquisition of Chevron-branded service stations in 2014, goodwill of \$9,885 is attributable to the anticipated future revenue from the service stations, location and characteristics of the service stations and expected synergies arising from the acquisition. Seventy five percent of the amount of goodwill recognized is deductible for income tax purposes.

**(f) Other information**

The estimated revenue and net income of the Corporation for the year ended December 31, 2015 would have been approximately \$7,258,629 and \$55,770, respectively, if the acquisition date for all business combinations that took place during the year ended December 31, 2015 occurred on January 1, 2015. Although these amounts represent the Corporation's best estimate, there can be no assurance that this would have been the actual results had the business combinations occurred on January 1, 2015. Acquisition costs are recognized as an expense in marketing, general and administrative expenses within acquisition, integration and other costs.

**24. INCOME TAXES**

**(a) Income tax expense**

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Current tax:		
Current tax on earnings for the year	<b>24,452</b>	26,585
Adjustments in respect of prior years	<b>3,026</b>	-
Current income tax expense	<b>27,478</b>	26,585
Deferred tax:		
Origination and reversal of temporary differences	<b>(7,277)</b>	(7,219)
Adjustments in respect of prior years	<b>73</b>	981
Deferred income tax recovery	<b>(7,204)</b>	(6,238)
Income tax expense	<b>20,274</b>	20,347

Income tax expense reflects an effective tax rate that differs from the statutory tax rate. A reconciliation of the difference between income tax expense and earnings before income taxes multiplied by Parkland's Canadian statutory tax rate is as follows:

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	Year ended December 31,	
	2015	2014
Canada	61,637	65,623
United States	(1,865)	4,599
Earnings (loss) before income taxes	59,772	70,222
Canadian statutory tax rate	26.3%	25.5%
Tax calculated at statutory Canadian tax rate	15,733	17,891
Tax effects of:		
Non-taxable portion of loss (gain) on sale of property, plant & equipment	(2)	8
Non-taxable portion of loss on foreign exchange	-	426
Non-deductible expenses	3,717	1,591
Non-taxable change in redemption option	332	(843)
Effect of foreign tax rate differential	(258)	699
Adjustments in respect of prior years	3,099	981
Effect of rate changes	(2,104)	17
Other items	(243)	(423)
Income tax expense	20,274	20,347

The increase in the Canadian statutory tax rate was primarily due to an increase in the Alberta statutory corporate income tax rate from 10% to 12%, effective July 1, 2015.

**(b) Deferred income tax**

	December 31, 2015	December 31, 2014
Deferred tax assets	34,840	15,127
Deferred tax liabilities	(33,962)	(35,077)
Net deferred tax assets (liabilities)	878	(19,950)

Deferred tax assets of \$362 (December 31, 2014 – \$280) and no deferred tax liabilities (December 31, 2014 – nil) are expected to reverse during the next 12 months.

The gross movement on the deferred income tax account is as follows:

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Balance, beginning of year	(19,950)	2,431
Acquisition of subsidiaries - SPF Energy (Note 23)	-	(27,522)
Acquisition of assets - Pioneer Energy (Note 23)	16,265	-
Acquisition of assets - North Dakota service stations (Note 23)	335	-
Acquisition of assets - Chevron-branded service stations (Note 23)	767	-
Acquisition of assets - other businesses (Note 23)	209	-
Income statement charge	7,204	6,238
Other comprehensive income charge	833	763
Exchange differences	(4,785)	(1,860)
Balance, end of year	878	(19,950)

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The movement in deferred income tax assets and liabilities during the year is as follows:

	<b>Consolidated Statements of</b>			
	<b>Comprehensive Income</b>		<b>Consolidated Balance Sheets</b>	
	<b>Year ended December 31,</b>		<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Property, plant and equipment	(5,234)	1,436	(28,238)	(34,698)
Intangibles	(4,055)	(3,283)	(10,658)	(10,945)
Deferred expenditures	1,569	(1,728)	424	1,955
Asset retirement obligations	(477)	(3,194)	32,500	16,826
Refinery remediation	(356)	(413)	3,720	3,364
Contingent liabilities	236	863	1,724	1,960
Fair value gains	(1)	(2,101)	5	4
Derivatives and hedges	517	1,007	(1,761)	(1,243)
Unrealized foreign exchange losses	598	683	450	215
Loss carryforwards	(1,056)	(121)	3,277	2,221
Other	1,055	613	(565)	391
	<b>(7,204)</b>	<b>(6,238)</b>	<b>878</b>	<b>(19,950)</b>

## 25. EXPENSES BY NATURE

Operating costs and marketing, general and administrative expenses include the following expenses by nature:

	<b>Year ended December 31, 2015</b>			<b>Year ended December 31, 2014</b>		
	<b>Operating costs</b>	<b>Marketing, general and administrative</b>	<b>Total</b>	<b>Operating costs</b>	<b>Marketing, general and administrative</b>	<b>Total</b>
Employee costs	82,174	102,685	184,859	82,145	85,952	168,097
Operating leases	62,013	3,567	65,580	50,778	3,154	53,932
Acquisition, integration and other costs	-	27,939	27,939	-	15,699	15,699
Other operating costs	137,002	-	137,002	109,896	-	109,896
Other marketing, general and administrative expenses	-	27,318	27,318	-	28,024	28,024
	<b>281,189</b>	<b>161,509</b>	<b>442,698</b>	<b>242,819</b>	<b>132,829</b>	<b>375,648</b>

Acquisition, integration and other costs comprise of acquisition costs of \$18,105, a supplier billing adjustment of \$3,184, integration costs of \$4,896 and other costs of \$1,754 (December 31, 2014 – acquisition costs of \$15,699). Other operating costs include costs for transaction processing fees, retailer fuel commissions, third party delivery expense, property tax, insurance, maintenance and repairs.

## 26. RELATED PARTY TRANSACTIONS

### (a) Legal services

Parkland receives legal services from Bennett Jones LLP where a partner is a director of the Corporation. The amounts related to fees expensed for the year ended December 31, 2015 was \$4,095 (December 31, 2014 – \$4,181), and the amounts payable as at December 31, 2015 was \$192 (December 31, 2014 – \$1,780).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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**(b) Directors' interests**

Parkland has receivable balances from the vendor of the Pioneer Acquisition and Pioneer Fuels Inc. where the President and CEO is a director of Parkland. As at December 31, 2015, outstanding amounts related to a promissory note receivable to fund the operational cash requirements of the Pioneer Commercial Assets was \$5,000 (December 31, 2014 – nil).

Parkland sells fuel at market prices to a company where the owner is a director of Parkland. Sales and operating revenue generated in the normal course of business was \$4,854, and the accounts receivable balance outstanding as at December 31, 2015 was \$384.

**(c) Key management compensation**

The remuneration of key management personnel of the Corporation, which includes members of the Board of Directors and the leadership team including the President and CEO, CFO and Vice Presidents, is set out below in aggregate:

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Salaries and short-term employee benefits	<b>6,323</b>	5,616
Share-based payments	<b>3,534</b>	2,826
	<b>9,857</b>	8,442

The liability balance for annual incentive plan and share-based compensation to key management personnel, including DSUs outstanding, was \$5,459 as at December 31, 2015 (December 31, 2014 – \$4,434).

**27. SEGMENT INFORMATION**

The Corporation has the following operating segments: i) Retails Fuels; ii) Commercial Fuels; iii) Parkland USA (formally SPF Energy); and iv) Supply and Wholesale (formally Wholesale, Supply and Distribution). These reportable operating segments are differentiated by the nature of their products, services and national geographic boundaries. The Corporation also reports activities not directly attributable to an operating segment under Corporate. These segments are defined as follows:

**Retail Fuels**

Retail Fuels operates and services a network of retail service stations that serve motorists in Canada. Parkland is a retail branded distributor for Esso in British Columbia, Alberta, Saskatchewan, Ontario and the Northwest Territories, and a retail branded distributor for Chevron in British Columbia. Parkland also maintains three proprietary brands: Pioneer, Fas Gas Plus and Race Trac.

**Commercial Fuels**

Commercial Fuels delivers bulk fuel, propane, heating oil, lubricants, agricultural inputs, oilfield fluids and other related products and services to commercial, industrial and residential customers across Canada. Commercial Fuels' brands include Bluewave Energy, Columbia Fuels, Sparlings Propane and Island Petroleum.

**Parkland USA (formerly SPF Energy)**

Parkland USA operates and services a network of retail service stations in the United States. In addition, Parkland USA delivers gasoline, distillates, propane and lubricating oils across the Northwestern United States. Brands operated by Parkland USA include SPF Energy, Farstad Oil and Superpumper.

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**Supply and Wholesale (formerly Wholesale, Supply and Distribution)**

Wholesale, Supply and Distribution is responsible for managing Parkland's fuel supply contracts, purchasing fuel from refiners, distribution through third party rail and highway carriers as well as serving wholesale and reseller customers. This segment includes profits from Elbow River Marketing, profits derived through supply management and profits from wholesale fuel sales.

**Principal subsidiaries**

The Corporation had the following material wholly-owned subsidiaries as at December 31, 2015:

<b>Name</b>	<b>Country of operation</b>	<b>Related operating segment</b>
Parkland Industries Ltd.	Canada	Retail Fuels, Commercial Fuels and Supply and Wholesale
Sparling's Propane Co Ltd.	Canada	Commercial Fuels
SPF Energy Inc.	United States	Parkland USA
Farstad Oil Inc.	United States	Parkland USA
Superpumper Inc.	United States	Parkland USA
Elbow River Marketing Ltd.	Canada	Supply and Wholesale
Parkland Refining Ltd.	Canada	Supply and Wholesale

**General information**

Intersegment sales are accounted for at market values and included, for segment reporting, in revenues of the segment making the transfer and expenses of the segment receiving the transfer. Intersegment transactions are eliminated upon consolidation. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Depreciation and amortization, finance costs, loss (gain) on disposal of property, plant and equipment, acquisition related costs, unrealized loss (gain) from the change in fair value commodities swap and forward contracts, future contracts and US dollar forward exchange contracts included in risk management activities, unrealized loss (gain) on foreign exchange and income taxes are not allocated to segments because they are not reviewed as part of segment information by the chief operating decision maker. Accordingly, there are certain asymmetries in the allocation of earnings to segments with respect to these items.

The segregation of total assets and total liabilities is not practical as the reportable segments are not being presented or reviewed by the chief operating decision maker.

During the first quarter of 2015, the Corporation completed a review of the sales activities within the Commercial Fuels segment and determined that certain revenue and cost of goods sold activities would be more appropriately presented on a net basis. As a result, these intersegment revenues and intersegment cost of goods sold for the comparative period have been presented on a net basis to conform to the presentation used in the current period. Comparative period information has been reclassified to reflect these changes in presentation, and there was no impact on sales and operating revenue, cost of goods sold, excluding depreciation, adjusted gross margin, adjusted EBITDA, or net earnings. The impact of these changes is summarized as follows:

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	<b>Year ended December 31, 2014</b>
<b>Impact on sales and operating revenue</b>	
Fuel and petroleum product revenue	-
Non-fuel revenue	(33,057)
Total sales and operating revenue - external and intersegmental	(33,057)
Less: Intersegment revenues	33,057
Sales and operating revenue	-
<b>Impact on cost of goods sold, excluding depreciation</b>	
Fuel and petroleum product cost of goods sold	-
Non-fuel costs of goods sold	(33,057)
Total cost of goods sold, excluding depreciation - external and intersegmental	(33,057)
Less: Intersegment cost of goods sold	33,057
Cost of goods sold, excluding depreciation	-
<b>Impact on sales and operating revenue, cost of goods sold, excluding depreciation, adjusted gross margin, adjusted EBITDA and net earnings</b>	
	-

**Parkland Fuel Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2015**

In 000's of Canadian Dollars, shares and options, except per share amounts

Segment information For the year ended December 31,	Retail Fuels		Commercial Fuels		Parkland USA (formerly SPF Energy)		Supply and Wholesale (formerly Wholesale, Supply and Distribution)		Corporate		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Fuel and petroleum products volume (000's of litres)</b>	<b>2,752,262</b>	1,733,960	<b>1,405,736</b>	1,565,207	<b>1,056,347</b>	1,185,568	<b>4,399,017</b>	4,370,413	-	-	<b>9,613,362</b>	8,855,148
<b>Sales and operating revenue</b>												
Fuel and petroleum product revenue	2,058,360	1,658,457	982,737	1,468,862	642,194	1,019,414	5,194,100	7,052,859	-	-	8,877,391	11,199,592
Non-fuel revenue	105,942	19,545	231,540	246,363	110,343	87,333	64,460	61,769	475	386	512,760	415,396
Total sales and operating revenue - external and intersegmental	2,164,302	1,678,002	1,214,277	1,715,225	752,537	1,106,747	5,258,560	7,114,628	475	386	9,390,151	11,614,988
Less: Intersegment revenues	-	-	-	-	-	-	(3,090,580)	(4,087,350)	-	-	(3,090,580)	(4,087,350)
Sales and operating revenue	2,164,302	1,678,002	1,214,277	1,715,225	752,537	1,106,747	2,167,980	3,027,278	475	386	6,299,571	7,527,638
<b>Cost of goods sold, excluding depreciation</b>												
Fuel and petroleum product cost of goods sold	1,913,877	1,571,695	822,562	1,304,949	606,541	981,196	5,042,285	6,925,426	-	-	8,385,265	10,783,266
Non-fuel costs of goods sold	69,526	-	181,583	185,209	79,106	59,029	48,257	49,346	(131)	71	378,341	293,655
Total cost of goods sold, excluding depreciation - external and intersegmental	1,983,403	1,571,695	1,004,145	1,490,158	685,647	1,040,225	5,090,542	6,974,772	(131)	71	8,763,606	11,076,921
Less: Intersegment cost of goods sold	-	-	-	-	-	-	(3,090,580)	(4,087,350)	-	30	(3,090,580)	(4,087,320)
Cost of goods sold, excluding depreciation	1,983,403	1,571,695	1,004,145	1,490,158	685,647	1,040,225	1,999,962	2,887,422	(131)	101	5,673,026	6,989,601
<b>Adjusted gross profit</b>												
Fuel and petroleum product adjusted gross profit (before risk management)	144,483	86,762	160,175	163,913	35,653	38,218	151,815	127,433	-	-	492,126	416,326
Realized loss on risk management activities	-	-	(4)	-	-	-	(3,080)	(978)	-	-	(3,084)	(978)
Realized gain (loss) on foreign exchange	-	-	-	-	-	-	4,520	3,752	(478)	(48)	4,042	3,704
Fuel and petroleum product adjusted gross profit (loss)	144,483	86,762	160,171	163,913	35,653	38,218	153,255	130,207	(478)	(48)	493,084	419,052
Non-fuel adjusted gross profit	36,416	19,545	49,957	61,154	31,237	28,304	16,203	12,423	606	285	134,419	121,711
Total adjusted gross profit	180,899	106,307	210,128	225,067	66,890	66,522	169,458	142,630	128	237	627,503	540,763
Customer finance income	(90)	-	(1,634)	(1,929)	(192)	(260)	(139)	(25)	(312)	(222)	(2,367)	(2,436)
Operating costs	61,487	25,913	127,460	136,164	39,573	36,098	52,669	44,644	-	-	281,189	242,819
Marketing, general and administrative	19,475	12,608	23,288	25,015	7,397	6,964	39,577	33,967	71,772	54,275	161,509	132,829
(Gain) loss on risk management activities	-	-	(3)	43	-	-	-	-	-	-	(3)	43
Less: Acquisition, integration and other costs	-	-	-	-	-	-	-	-	(27,939)	(15,699)	(27,939)	(15,699)
<b>Adjusted EBITDA</b>	<b>100,027</b>	67,786	<b>61,017</b>	65,774	<b>20,112</b>	23,720	<b>77,351</b>	64,044	<b>(43,393)</b>	(38,117)	<b>215,114</b>	183,207
Depreciation and amortization									92,922	75,124	92,922	75,124
Finance costs									34,892	25,145	34,892	25,145
Loss on disposal of property, plant and equipment									1,253	1,156	1,253	1,156
Acquisition, integration and other costs									27,939	15,699	27,939	15,699
Unrealized gain from the change in fair value of commodities swaps and forward contracts, US dollar forward exchange contracts and future contracts									(1,507)	(3,707)	(1,507)	(3,707)
Unrealized gain on foreign exchange									(157)	(432)	(157)	(432)
Income tax expense									20,274	20,347	20,274	20,347
<b>Net earnings</b>											<b>39,498</b>	49,875
<b>Additions to property, plant and equipment</b>	<b>154,199</b>	20,138	<b>14,127</b>	20,743	<b>30,079</b>	30,082	<b>847</b>	2,403	<b>1,739</b>	1,547	<b>200,991</b>	74,913



**Parkland Fuel Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2015**

In 000's of Canadian Dollars, shares and options, except per share amounts

**Geographic information**

	Year ended December 31,	
	2015	2014
Revenue from external customers - Canada	5,547,034	6,420,891
Revenue from external customers - United States	752,537	1,106,747
Sales and operating revenue	6,299,571	7,527,638

	December 31, 2015		
	Canada	United States	Consolidated
Property, plant and equipment	438,648	61,225	499,873
Intangible assets	139,361	53,250	192,611
Goodwill	478,519	55,422	533,941
Total	1,056,528	169,897	1,226,425

	December 31, 2014		
	Canada	United States	Consolidated
Property, plant and equipment	326,587	32,918	359,505
Intangible assets	113,572	50,261	163,833
Goodwill	142,377	37,230	179,607
Total	582,536	120,409	702,945

**28. CONTINGENCIES AND COMMITMENTS**

**(a) Legal**

The Corporation is involved in various legal claims and legal notices arising from the ordinary course of business. Parkland has made adequate provisions for such legal claims. The Corporation also accrues a liability for legal claims, primarily for the mitigation of contamination at sites where the Corporation has had operations and where the amounts were more likely than not to be incurred. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Parkland's consolidated balance sheet, consolidated statement of income, or consolidated statement of cash flows. The liability balance related to these claims as of December 31, 2015 was \$6,363 (December 31, 2014 – \$7,514). During 2015, amounts used were \$1,151 and no additional provisions were made.

**(b) Commitments**

***Operating leases***

Parkland has operating leases primarily for buildings, offices, rail tank cars, warehouses, equipment and land. These operating leases expire at various dates over the next 31 years. The minimum payments required under these commitments are as follows:

	Less than one year	Years 2 and 3	Years 4 and 5	Thereafter	Total
Obligations under operating leases	44,612	69,588	38,021	46,888	199,109

***Property, plant and equipment***

Contractual commitments for the acquisition of property, plant and equipment as at December 31, 2015 were \$8,444 (December 31, 2014 – \$8,361).

**Parkland Fuel Corporation**  
Notes to the Consolidated Financial Statements  
For the year ended December 31, 2015

In 000's of Canadian Dollars, shares and options, except per share amounts

***Fuel and petroleum products***

Parkland has entered into various purchase agreements which requires it to purchase minimum amounts or quantities of fuel and petroleum product over certain time periods. Parkland has generally exceeded such minimum requirements in the past and expects to continue doing so for the foreseeable future. Failure to satisfy the minimum purchase requirements could result in the termination of contracts, change in pricing of products, and payments to the applicable suppliers of a predetermined amount of the commitments.

**Parkland Fuel Corporation**  
**Unaudited segment information**  
**For the three months ended December 31, 2015 and 2014**

In 000's of Canadian Dollars, shares and options, except per share amounts

Segment information (unaudited) For the three months ended December 31,	Retail Fuels		Commercial Fuels		Parkland USA (formerly SPF Energy)		Supply and Wholesale (formerly Wholesale, Supply and Distribution)		Corporate		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Fuel and petroleum products volume (000's of litres)</b>	<b>912,002</b>	426,957	<b>342,518</b>	400,231	<b>236,660</b>	309,990	<b>1,122,682</b>	1,190,635	-	-	<b>2,613,862</b>	2,327,813
<b>Sales and operating revenue</b>												
Fuel and petroleum product revenue	640,117	357,826	223,689	330,543	138,487	246,577	1,261,078	1,630,182	-	-	2,263,371	2,565,128
Non-fuel revenue	45,566	5,152	61,087	63,806	29,094	22,626	17,033	13,701	127	105	152,907	105,390
Total sales and operating revenue - external and intersegmental	685,683	362,978	284,776	394,349	167,581	269,203	1,278,111	1,643,883	127	105	2,416,278	2,670,518
Less: Intersegment revenues	-	-	-	-	-	-	(760,477)	(932,039)	-	-	(760,477)	(932,039)
Sales and operating revenue	685,683	362,978	284,776	394,349	167,581	269,203	517,634	711,844	127	105	1,655,801	1,738,479
<b>Cost of goods sold, excluding depreciation</b>												
Fuel and petroleum product cost of goods sold	593,841	334,917	183,984	283,998	130,355	235,058	1,212,859	1,606,893	-	-	2,121,039	2,460,866
Non-fuel costs of goods sold	32,719	-	48,696	48,844	20,472	14,960	12,431	13,116	(4)	(48)	114,314	76,872
Total cost of goods sold, excluding depreciation - external and intersegmental	626,560	334,917	232,680	332,842	150,827	250,018	1,225,290	1,620,009	(4)	(48)	2,235,353	2,537,738
Less: Intersegment cost of goods sold	-	-	-	-	-	-	(760,477)	(932,039)	-	6	(760,477)	(932,039)
Cost of goods sold, excluding depreciation	626,560	334,917	232,680	332,842	150,827	250,018	464,813	687,970	(4)	(42)	1,474,876	1,605,705
<b>Adjusted gross profit</b>												
Fuel and petroleum product adjusted gross profit (before risk management)	46,276	22,909	39,705	46,545	8,132	11,519	48,219	23,289	-	-	142,332	104,262
Realized gain (loss) on risk management activities	-	-	1	-	-	-	(57)	5,948	-	-	(56)	5,948
Realized gain (loss) on foreign exchange	-	-	-	-	-	-	1,469	2,839	2	(54)	1,471	2,785
Fuel and petroleum product adjusted gross profit (loss)	46,276	22,909	39,706	46,545	8,132	11,519	49,631	32,076	2	(54)	143,747	112,995
Non-fuel adjusted gross profit	12,847	5,152	12,391	14,962	8,622	7,666	4,602	585	131	147	38,593	28,512
Total adjusted gross profit	59,123	28,061	52,097	61,507	16,754	19,185	54,233	32,661	133	93	182,340	141,507
Customer finance (income) loss	(34)	-	(622)	(318)	(42)	(57)	(21)	47	2	(113)	(717)	(441)
Operating costs	23,594	6,470	31,870	35,073	10,738	9,315	14,145	9,265	-	-	80,347	60,123
Marketing, general and administrative	6,373	2,941	5,834	6,100	1,897	1,879	12,193	10,055	18,406	17,534	44,703	38,509
Loss on risk management activities	-	-	1	53	-	-	-	-	-	-	1	53
Less: Acquisition, integration and other costs	-	-	-	-	-	-	-	-	(6,848)	(7,802)	(6,848)	(7,802)
<b>Adjusted EBITDA</b>	<b>29,190</b>	18,650	<b>15,014</b>	20,599	<b>4,161</b>	8,048	<b>27,916</b>	13,294	<b>(11,427)</b>	(9,526)	<b>64,854</b>	51,065
Depreciation and amortization									28,995	17,630	28,995	17,630
Finance costs									9,060	5,887	9,060	5,887
Loss on disposal of property, plant and equipment									1,065	68	1,065	68
Acquisition, integration and other costs									6,848	7,802	6,848	7,802
Unrealized (gain) loss from the change in fair value of commodities swaps and forward contracts, US dollar forward exchange contracts and future contracts									(3,749)	4,436	(3,749)	4,436
Unrealized loss on foreign exchange									780	1,251	780	1,251
Income tax expense									6,178	3,769	6,178	3,769
<b>Net earnings</b>											<b>15,677</b>	10,222
<b>Additions to property, plant and equipment</b>	<b>13,091</b>	7,398	<b>5,194</b>	6,990	<b>15,871</b>	1,402	<b>(2,364)</b>	252	<b>338</b>	499	<b>32,130</b>	16,541