Measured
Performance

PARKLAND INCOME FUND

ANNUAL REPORT 2006


SHORT STOP FOOD STORE

The year 2006 proved to be exceptional for Parkland Income Fund. Parkland experienced record earnings, made a significant acquisition, expanded its Retail Branded Distribution program and restarted a portion of the Bowden refinery. Parkland also continued to upgrade its non-urban network of Fas Gas Plus and Race Trac Fuels service stations and to increase non-fuel revenues at its Short Stop and Short Stop Express convenience stores. As one of Canada's largest independent marketers of transportation fuel, Parkland has delivered strong, improving, measurable performance year over year for the past five years in all aspects of its business.

President's Message

TO OUR UNITHOLDERS

The year 2006 was outstanding for Parkland. Our base business set all time records for volumes, margins, earnings and Unitholder distributions. All were significantly ahead of previous highs. Throughout 2006 we refined and adhered to our strategic plan and in December announced our first major acquisition in recent years.

BUSINESS AND FINANCIAL PERFORMANCE

The year's financial performance was driven by significant increases in both volumes and margins, based both on favorable market conditions and the accomplishments of Parkland employees. The continued growth of the western Canadian economy and strong industry margins combined with our new marketing initiatives were the major contributors to that performance. During the year, we made substantial progress within our marketing organization, reorganizing the way we work and introducing a "customer care" initiative. We continued to improve our customer experience and sales opportunities through our upgrading of retail stations as we extended our Fas Gas Plus upgrade program and rebranded selected Race Trac locations to Fas Gas Plus within our dealer business.

2006 PERFORMANCE MEASURES

	2006	2005	2004	**2005/06 CHANGE**
Fuel Volume *(millions of litres)*	**1,501**	1,177	1,101	**27%**
Merchandise Sales *($ million)*	**59.6**	45.0	38.1	**33%**
Gross Margin *($ million)*	**137.1**	91.9	82.9	**49%**
EBITDA *($ million)*	**69.7**	36.7	30.5	**90%**
Total Distributions *($ million)*	**56.2**	23.9	21.1	**135%**

BUSINESS DEVELOPMENT

We have ramped up our business development efforts with two primary initiatives in 2006. The Bowden refinery was partially restarted as a chemical toll processor, transforming that operation to a cash flow positive asset and we extended our Esso distribution business into parts of British Columbia.

Of greatest impact was agreement on Parkland's first major acquisition in recent years. The acquisition of Neufeld Petroleum and Propane Ltd. and Neufeld Holdings Ltd. of Grande Prairie, Alberta provides Parkland with a high growth, successful operating business in a new highly complementary market segment and a platform for future strategic expansion. These companies operate a business with striking similarities to Parkland's – it is a fuel and related products business focused on the non-urban market within our core geographic area. We anticipate a very smooth integration of this organization with our own, and expect to see synergies and cost benefits in trucking – which is counter-seasonal to our existing trucking business – and fuel purchasing. In 2006, these companies generated a normalized EBITDA of $20.5 million. The acquisition was completed on January 24, 2007 with an effective date of November 1, 2006.

ENVIRONMENT HEALTH AND SAFETY

2006 was a year of significant accomplishment in EH&S. We made substantial progress in environmental remediation at the Bowden refinery site and upgraded our safety management program with significant emphasis on hazard management. When the refinery net book value was written off in 2004 we established a provision for future environmental remediation. We believe this provision remains adequate as an estimate of future costs.

STRATEGY

During the year, we refined our strategic plan to focus tightly on our base of non-urban, independent fuel and related products marketing. We continue to pursue four key strategic pillars and made substantial progress on each one, as the accompanying table explains.

KEY STRATEGIES GOING FORWARD

GROWTH	INCREASE COMPETITIVENESS
■ Completed Neufeld acquisition ■ Re-activated Bowden refinery ■ Expanded Esso agreement ■ Established new/upgraded sites	■ Refined marketing programs ■ Grew non-fuel revenue ■ Reduced net unit operating costs ■ Integrated Neufeld operations
RISK	**ORGANIZATIONAL EFFECTIVENESS**
■ Diversified revenue in commercial/industrial ■ Maintained conservative financial structure ■ Continued EH&S improvements	■ Enhanced training program ■ Revamped marketing organization ■ Upgraded position requirements
THINK LIKE A MAJOR, ACT LIKE AN INDEPENDENT	

TAXATION CHANGES

The Federal government's October 2006 announcement of its plans for new taxation on the Income Trust Sector came as a significant disappointment. The lack of clarity on growth restrictions contained in the announcement was one of the factors which delayed the date we could finalize the Neufeld acquisition. Parkland does qualify for the grace period through 2010 in which the new tax will not apply. In 2007, we will be assessing our options carefully when and if the legislation is passed. However, in the short term the growth restrictions are not anticipated to prevent Parkland from pursuing growth options and acquisitions which are in excess of historic trends.

GOING FORWARD

2007 began with the closing of the Neufeld transaction in January. As we integrate our two organizations, we are focusing our efforts on capturing the synergies and opportunities and maintaining the high service, high performance culture. We will also work to build on this beachhead in the commercial/industrial market to further Parkland's growth.

In the base retail fuel marketing and convenience store business, we have plans to keep our focus on organic growth with rebranding, site rebuilds and selective new site additions and acquisitions.

We continue to pursue our process of screening business acquisition opportunities against rigorous criteria and selectively pursuing candidates with the right fit.

In summary, 2006 was an outstanding year for Parkland and its Unitholders. We have plans and programs in place to continue to develop and grow the business in 2007 and beyond. I want to give special thanks to our customers, suppliers, retailers, employees and our Board, whose effort and support has been critical to performance. Together we can look forward to a challenging and rewarding year ahead.

MICHAEL W. CHORLTON
President and CEO

March 1, 2007

Chairman's Message

Corporate leadership is critical to the long-term success of an enterprise. The "tone at the top" typically sets the framework for success in initiatives that may be undertaken in the corporate setting. Whether the task is broad, as in assessing corporate risk, or more specific, as in implementing an effective health, safety and environment program, strong and committed leadership is essential for success.

At Parkland, leadership begins with the Board of Directors and we have committed ourselves to effectiveness in our role. The starting point is a commitment to excellence in our corporate governance.

In today's capital markets, the competition for investors' attention is fierce and a business with a rigorous approach to corporate governance has a clear advantage. As Parkland's non-executive Chairman, I can assure you that the Board of Directors takes its fiduciary duties very seriously and, in our efforts to discharge those duties we are committed to implementing the best governance practices which will both be effective and be seen to be effective. We intend to maintain independence and diversity of the Board as a top priority.

I am particularly pleased with the achievements of the Board in 2006. We scored well in measuring ourselves against benchmarks of best practices and initiated action to improve our success. Additionally, we developed a succession plan for Committee and Board chairs and sharpened our focus on long-term strategies for growth.

Effective leadership is reflected throughout the organization in areas such as internal controls processes, an ethical culture and a commitment to environmental responsibility and I am pleased with results in each of these areas.

For income fund investors, 2006 was a tumultuous year with proposals for income tax changes and the prospect of future structural changes. In this challenging environment, Parkland was able to provide outstanding returns for investors. The management was able to complete the largest acquisition in Parkland's history and thereby set the stage for significant future growth. The management team continues to enjoy the full support of the Board of Directors.

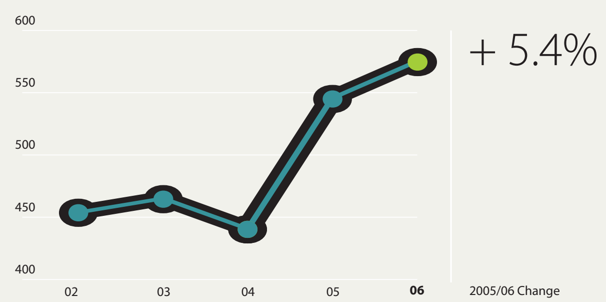
Finally, let me thank all of our unitholders. The Fund has a strong core of supportive unitholders and your commitment is essential for our continued success.

Sincerely,

JIM PANTELIDIS
Chairman, Board of Directors

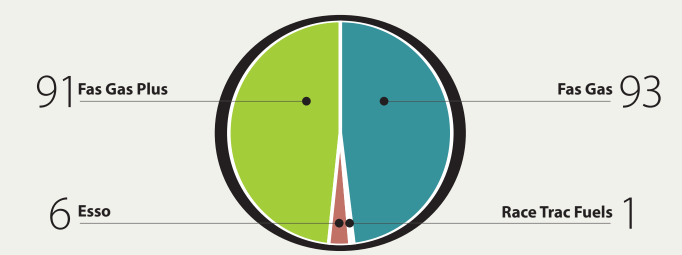
Parkland Income Fund has become the fastest growing independent marketer of transportation fuels in Canada. With more than 750 employees, Parkland has positioned itself as a significant player in non-urban markets in Western Canada, providing breadth and presence through its network of service stations including Fas Gas Plus, Fas Gas, Race Trac and its marketing and distribution agreement for the Esso brand. In the past five years Parkland has grown to 565 sites (see below), more than doubling its operating revenues, increasing sales volumes by almost 70 percent (see below) and net earnings by 76 percent. Parkland's 2007 acquisition of Neufeld companies adds a leading commercial fuel and propane supplier to Parkland's expanding business.

Total Number of Parkland Sites as at Dec 31, 2006

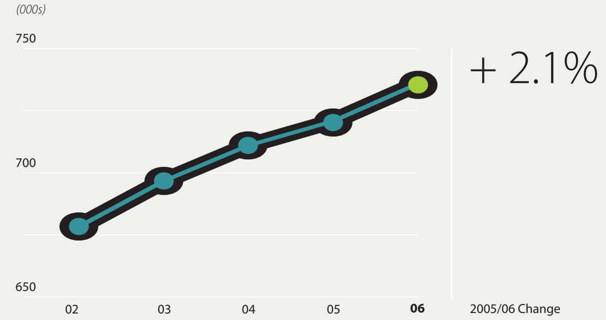


Parkland Sites by Brand

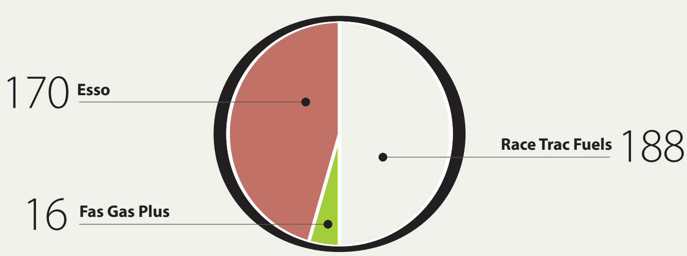
Parkland Retail Sites as at Dec 31, 2006



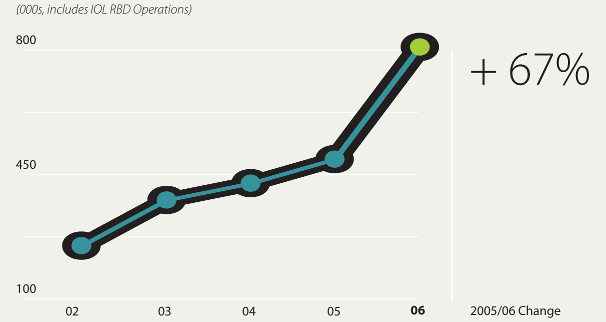
Parkland Branded Volumes as at Dec 31, 2006
(000s)



Parkland Wholesale Sites as at Dec 31, 2006

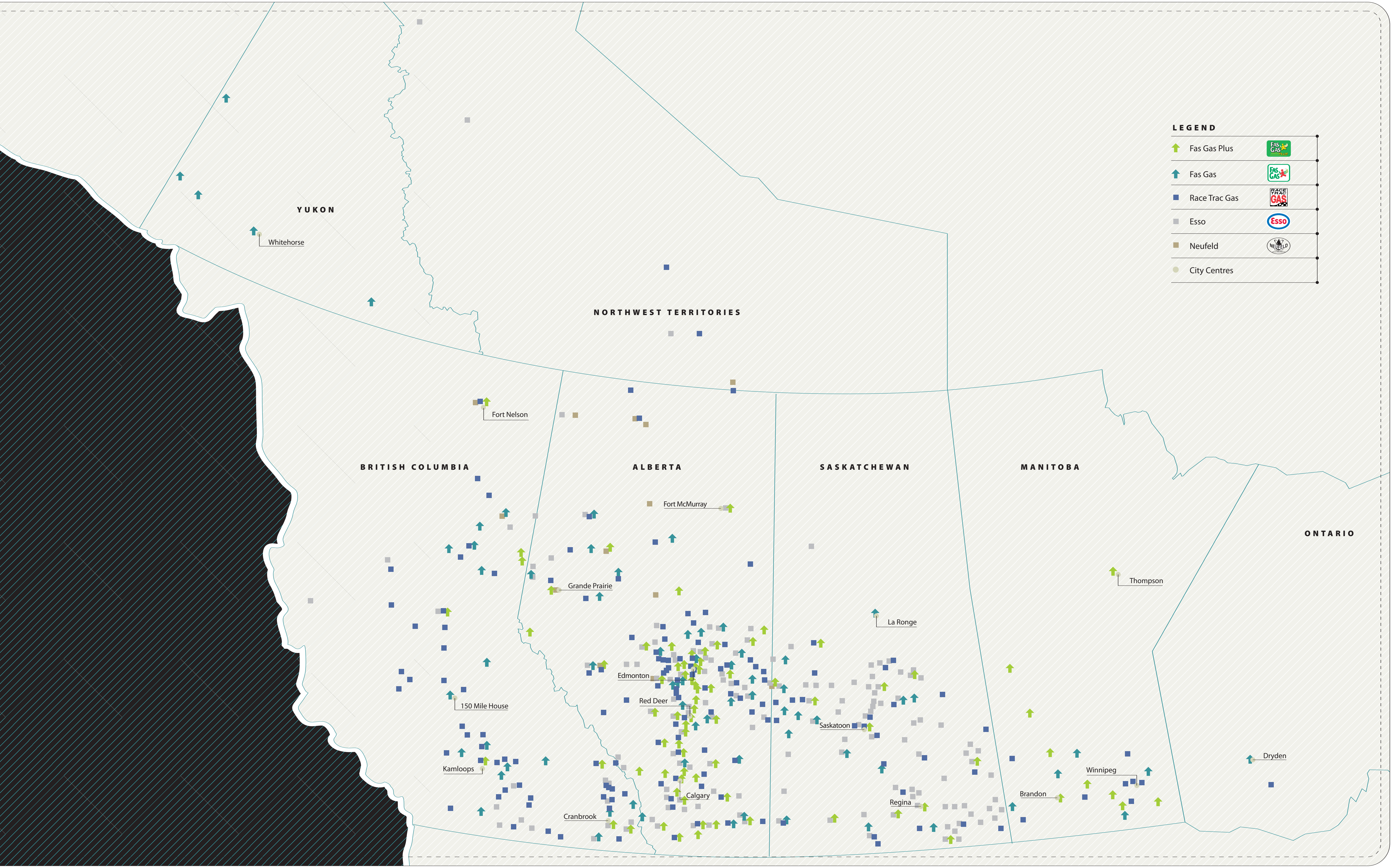


Commercial and Reseller Volumes as at Dec 31, 2006
(000s, includes IOL RBD Operations)



Five Year Summary

YEARS ENDED DECEMBER 31, ($000s EXCEPT VOLUME AND PER UNIT AMOUNTS)	**2006**	2005	2004	2003	2002
Total assets	**$ 172,459**	$ 133,019	$ 117,417	$ 128,602	$ 126,458
Total long-term liabilities	**5,829**	13,907	17,612	18,170	20,432
Sales volume *(millions of litres)*	**1,501**	1,177	1,101	1,039	897
Net sales and operating revenues	**1,199,866**	875,539	686,658	567,226	471,730
Cost of sales and operating expenses	**1,062,809**	783,615	603,766	489,804	401,020
Gross margin	**137,057**	91,924	82,892	77,422	70,710
Marketing, general and administrative	**67,386**	55,223	52,363	48,374	45,139
EBITDA	**69,671**	36,701	30,529	29,048	25,571
Amortization	**8,453**	8,077	7,828	7,270	7,068
Interest on long-term debt	**1,044**	873	738	897	800
Loss on disposal of capital assets	**608**	727	1,414	307	459
Loss on writedown of refinery	**–**	–	25,310	–	–
Earnings (loss) before income taxes	**59,566**	27,024	(4,761)	20,574	17,244
Income tax expense (recovery)	**975**	2,055	(8,721)	283	3,401
Net earnings	**$ 58,591**	$ 24,969	$ 3,960	$ 20,291	$ 13,843
Per unit – basic	**4.57**	1.97	0.32	1.62	1.11
– diluted	**4.52**	1.96	0.31	1.61	1.11
Merchandise sales	**$ 59,624**	$ 44,970	$ 38,051	$ 31,266	$ 22,014
Total distributions	**$ 56,171**	$ 23,872	$ 21,075	$ 20,376	$ 13,208
Funds flow from operations	**$ 68,206**	$ 34,343	$ 30,048	$ 28,187	$ 23,473
Capital expenditures	**$ 11,148**	$ 8,588	$ 10,138	$ 9,259	$ 8,857
Maintenance capital	**6,296**	4,525	4,352	5,948	1,839
Growth capital	**4,852**	4,063	5,786	3,311	7,018


LEGEND
Fas Gas Plus
Fas Gas
Race Trac Gas
Esso
Neufeld
City Centres
YUKON
Whitehorse
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
ONTARIO
Fort Nelson
Fort McMurray
Grande Prairie
Edmonton
Red Deer
Calgary
Cranbrook
Kamloops
150 Mile House
La Ronge
Saskatoon
Regina
Thompson
Winnipeg
Brandon
Dryden


SATELLITE
PUMP
RACE
TRAC

Review of Operations

OUR RETAIL BUSINESS

There are a number of key principles underlying Parkland's Retail Business Unit Strategy. They include being highly selective in which markets to invest, having a deep understanding of the customer's needs and increasing competitiveness in the products and services offered, as well as maintaining low cost operations.

Specifically, our strategy is built upon four pillars:

1. Non-urban market focus – invest in those markets where we are best suited to compete and grow market share;
2. Multi-branded networks – offer the consumer a branded value proposition tailored to their needs through our Fas Gas Plus, Race Trac and Esso brands;
3. Non-fuel revenue streams – lessen our reliance on fuel margins through a continued expansion of our Short Stop and Short Stop Express convenience stores, added focus on the development of car washes and the development of food service relationships; and
4. Organizational capability – an increasing focus on developing our people and broadening our use of technology while maintaining a low cost operating model.

In 2006, significant milestones were reached in all of these areas.

Non-Urban Market Expansion

Parkland's presence in non-urban markets has grown significantly over the past number of years and we are committed to future growth in these markets through redeveloping existing units, acquiring competitively branded locations, developing new locations and continuing the expansion of our brands into the independent dealer market.

In 2006 we undertook major redevelopments of two of our sites in Prince Albert, Saskatchewan and Morden, Manitoba; we also acquired an independent dealer operated location in Moosomin, Saskatchewan. During the year 16 dealer-operated units were converted to Parkland brands and in addition, Parkland was awarded a second Esso Retail Branded Distributorship for parts of British Columbia which added 22 locations to our existing portfolio of 154 locations in Alberta and Saskatchewan.

Multi-Branded Networks

Parkland is unique in Western Canada in that we are able to offer consumers a branded product and service which best suits their individual needs.

Our network of 189 Race Trac branded locations appeals to the rural market consumer who is seeking an independent brand offering competitive value and local ownership.

Our Fas Gas Plus brand has grown to 107 sites and is consistently rated highly among consumers in the markets in which we operate for providing better value as well as being a very community-minded service station and convenience store operator.

Our Retail Branded Distributorship agreement with Imperial Oil also allows Parkland the opportunity to offer consumers a national brand. With our expansion into British Columbia in 2006, Parkland currently has 176 such locations in our portfolio and we believe that we are well positioned to add new units in the coming years.

Great Northern Oil, Parkland's most northerly operation, operates a fuel storage facility in Whitehorse, Yukon that supports a network of 19 Race Trac and Fas Gas locations in the Yukon, the Northwest Territories and Northern British Columbia. Parkland also owns and operates a bulk facility that provides fuels for home heating oil and commercial businesses under the brand name Great Northern Oil.

Non-Fuel Revenue Growth

Parkland's network of Short Stop and Short Stop Express convenience stores continues to generate above industry average growth in merchandise sales. Merchandise sales were up 33 percent in 2006, and will continue to play a key role in Parkland's overall growth strategy as we launch new products such as our new Bello coffee brand, and add stations to our network. Parkland currently operates 39 corporate stores and 52 stores through commissioned operators.

2006 saw Parkland's first touchless car wash open in Prince Albert, Saskatchewan and two more are planned for 2007. Due to early positive results, Parkland expects the service to become an increasingly important part of its future offerings.

We will also continue to seek co-developments with major branded food service operators following early successes with a location in Morden, Manitoba where Parkland has co-developed the site with McDonald's. McDonald's is a tenant on the property and provides customers a full-sized restaurant and drive thru.

Organizational Capability

Parkland's team is well respected in our industry. We are committed to offering a work environment that is inclusive, appreciative, positive and highly focused on learning and development. To that end, in December, 2006 we opened a new training centre near our head office in Red Deer, which will offer a range of programs to store managers, retailers and Parkland associates. We are also expanding the use of technologies through initiatives such as new Point of Sale equipment and Pay at the Pump technology.

We believe that by building new skills among our workforce and broadening the use of technology, we will also continue to improve our productivity. At Parkland we remain committed to operating our business at low cost which has been a key source of our competitive advantage and will continue to be so in the future.

OUR SUPPLY AND DISTRIBUTION BUSINESS

Supply

A key success factor for Parkland is our ability to have secure sources of fuel supply at competitive prices. Parkland continues to enjoy strong relationships with all three major refiners in Western Canada. We work closely with our supply partners to ensure that all contractual obligations are met or exceeded. Parkland maintains lifting rights at most western refineries and primary terminals which provide maximum flexibility to best serve our customers. In 2006 we worked diligently to ensure that Parkland met new regulatory requirements by the Canadian government for Ultra Low Sulphur Diesel as well as the introduction of Ethanol Blended Fuel in Saskatchewan.

Reseller & Commercial

Parkland also sells directly to resellers and commercial customers across Western Canada through cardlock facilities or by direct delivery. Our reseller group plays an integral role in Parkland's supply chain as it allows Parkland to take advantage of volume price opportunities that are available in the marketplace.

Petrohaul

One of Parkland's key competitive strengths is its fleet of 38 trucks based out of six strategic locations in Western Canada. At Parkland we have proven we are able to offer superior delivery service to our retail and commercial customers. In 2006 we upgraded our fleet and added eight new drivers to our professional team. With the intense, industry-wide competition for drivers, Parkland has also taken measures to broaden our recruiting strategy across Canada and internationally and to keep pace with driver compensation and incentives.

Parkland Refining Ltd.

Parkland owns a refinery at Bowden, Alberta, which suspended production in 2001. A Letter of Intent to sell the refinery to the Blood Tribe of Standoff, Alberta expired in 2006. Parkland launched a successful pilot project at the site which confirmed the feasibility of upgrading feedstock supplied by a local petrochemical plant. Following the pilot, Parkland entered into a multi-year custom processing agreement with the petrochemical plant to produce fluids used in the oilfield on a customer fee basis.

In 2006 Parkland spent $660,000 on voluntary environmental remediation at the refinery. Approximately $300,000 is planned for this program in 2007. These expenditures will reduce future potential obligations for remediation.

Neufeld Petroleum and Propane

In late 2006 Parkland entered into an agreement to acquire all of the issued and outstanding shares of privately-held Neufeld Petroleum and Propane Ltd. and Neufeld Holdings Ltd. The acquisition closed on January 24, 2007. The purchase price was approximately $131 million and is described in Note 12 to the financial statements. The effective date on the transaction was November 1, 2006 and the interim earnings to January 24, 2007 will be credited to the purchase price.

Based in Grande Prairie, Alberta, Neufeld operates in 13 locations in Northern Alberta, Northeast British Columbia and the Northwest Territories. Neufeld distributes fuel, propane and agricultural inputs such as fertilizers and farm chemicals, along with industrial products such as lubricants and frac oils to commercial customers. Neufeld also services residential customers for their home heating needs.

Established in 1971, Neufeld has a strong reputation in the markets it serves. It also has a diverse customer base, servicing over 6,600 customers. For its last fiscal year, ended August 31, 2006, Neufeld had total revenues of $221 million and normalized earnings before interest, taxes, depreciation and amortization of approximately $20.5 million. The normalization adjustments were detailed in the Material Change Report filed with the Alberta Securities Commission and are related to expenses that are not expected to recur.

The acquisition provides Parkland with a strategic platform to pursue additional growth opportunities and is complimentary to Parkland's existing business. It provides diversification and decreases the seasonality of Parkland's cash flow. Neufeld's operations are seasonally strong during the fall and winter months while Parkland's operations are strong during the spring and summer driving seasons. The acquisition also adds scale to our fuel products, offering potential for greater purchasing power and cost savings. It expands our fuel distribution capabilities and trucking fleet and provides opportunities to cross sell Parkland's products and services to Neufeld's customers and vice versa.

Abe Neufeld, President and CEO of Neufeld, joining Parkland as Vice President, Commercial Business Development


EAT-MORE


FAS GAS
PLUS
Humpty's
Classic
CAFE

Culture and Community

HEALTH, SAFETY AND ENVIRONMENT

Parkland is committed to responsible environmental controls and to protecting the health and safety of its employees, customers and suppliers.

On the environmental front, Parkland has a comprehensive program in place, including drilling and testing soil, tanks and lines on new sites; maintaining cathodic protection systems on steel tanks in the network; performing regular audits of peizometer wells on its sites; and following strict procedures for detecting inventory losses at its locations. Parkland has a program that provides for scheduled replacement of older tanks with fibreglass or aboveground tanks.

Parkland has a Health, Safety and Environment Committee which represents all areas of the business. This Committee's mandate is to ensure consistent health and safety processes and documentation throughout the organization and to provide recommendations to management and employees for addressing occupational health, safety and training.

In 2006, we successfully completed a Partnership Audit of our programs and facilities.

CODE OF CONDUCT

Parkland has established a Code of Conduct and Conflict of Interest Guidelines (the "Code"). The Code is provided to all employees and Directors, Officers and Senior Management must acknowledge understanding and compliance. It is available on Parkland's website at www.parkland.ca and the SEDAR website at www.sedar.com.

In cases where employees feel they have serious or sensitive issues, including possible breaches in the Code, Parkland has a Whistle Blower Policy that provides a means for the employee to report issues confidentially and, if desired, anonymously. This Policy also outlines what actions will be taken and the feedback that will be provided to the employee to ensure that the issue has been addressed.

COMMUNITY INVOLVEMENT

Parkland strives to make a difference in the communities we serve.

We support the communities we do business with through financial contributions and by supporting our employees in their community involvement. We provide financial support to projects that focus on health, education and youth.

Parkland has made major contributions in recent years to the Alberta Heart & Stroke Foundation, the Canadian Cancer Society, the David Thompson Health Region, Juvenile Diabetes, Search and Rescue, STARS Air Ambulance, United Way, the Red Deer Hospice Society, the Red Deer Regional Hospital Foundation and its Capital Campaign as well as a number of regional food banks.

Parkland also sponsors "subject" awards at high schools and offers scholarships for employees' children who wish to further their education. Support is also given in a number of other areas including School Business Partners, Safety City, Tools for Schools, the Red Deer College Capital Campaign and established Lifelong Learning Awards at Red Deer College.

In collaboration with our local dealers, we sponsor youth sports teams in a number of marketing areas, usually on a sharing basis with the local dealers.

Parkland's associates make a difference at a personal level through organizations such as service clubs, A Better World, the Make a Wish Foundation, the Terry Fox Run, volunteer fire departments, the Self Esteem Society, theatre groups, the Girl Guides, the Boy Scouts, The Women's Shelter, MADD, Safe Communities Coalition and Foster Parents Plan of Canada as well as coaching many sports teams and organizing community events.

PRIVACY STATEMENT

Parkland has in place generally accepted standards of technological security for the purpose of protecting all information provided by customers, suppliers and employees from misuse, loss or corruption. Only authorized personnel have access to personally identifiable information submitted to Parkland. Such employees are required to maintain the confidentiality of this sensitive data. The policy also applies to any and all agents, affiliates and related entities of Parkland that may receive such information from Parkland.

Parkland's Teams

LEADERSHIP TEAM

Left to right: Stu MacPhail, Chris Podolsky, John Schroeder, Bradley Williams, Mike Chorlton, Abe Neufeld, Dennis Lee

FINANCE TEAM

Left to right: Phyllis Hay, Wendy Stephansson, Audrey Neal, John Schroeder, Chris Podolsky, Darlene Gabrielson

RETAIL TEAM

Left to right: Sim Koopmans, Stu MacPhail, Tim Rhodes, Terry Vanhantsaeme

WHOLESALE TEAM

Left to right: Don Beckett, Bradley Williams, Nicole Fisher, Abe Neufeld

Corporate Governance

The Fund delegates the management and administration of its business to Parkland Industries Ltd., a subsidiary of the Fund, and its Board of Directors.

The fundamental responsibility of Parkland's Board is to oversee the management of the business, with a view to delivering consistent and growing unitholder returns and ensuring the Fund conducts its business in an ethical and legal manner through an appropriate system of corporate governance.

CHAIRMAN OF THE BOARD

The Position Description for the Board Chair and the Board Mandate are disclosed in their entirety in the 2006 Information Circular.

The Chairman of the Board is James Pantelidis. He has served on the Board since 1999 and brings extensive management experience in the retail and wholesale fuels markets. His responsibilities are to among other matters:

- provide leadership to the Board of Directors;
- oversee the Board's effectiveness and assure it meets its obligations and responsibilities;
- monitor and co-ordinate the functions of the Board with management to effectively maintain the separation of roles and responsibilities; and
- provide advice and counsel to the President and Chief Executive Officer (CEO) respecting matters within the purview of the Board.

Board Independence

The Board of Directors is made up of nine members of whom seven are independent. The Directors who are not independent are Michael W. Chorlton, who serves as President and CEO of Parkland Income Fund, and David Spencer, a partner in the legal firm of Bennett Jones LLP which provides legal services to Parkland. The Board met 10 times in 2006 and had a 95 percent attendance rate.

Board Structure

Parkland has two committees. These committees are: the Audit Committee that is entirely made up of Independent Directors; and the Compensation and Corporate Governance Committee.

Audit Committee

The members of the Audit Committee are Ron Rogers (Chair); James Pantelidis, Jim Dinning and Kris Matthews. All members are independent Directors. The Chair is appointed by the Board of Directors. The Committee met five times in 2006 and had an 81 percent attendance rate.

Financial Literacy

All Audit Committee members are financially literate as contemplated by applicable securities law. Ron Rogers is a Chartered Accountant, Kris Matthews is a Certified Management Accountant with extensive experience providing financial consulting services to businesses and also is the audit committee chair of another income fund. James Pantelidis has a Bachelor of Science and a Masters of Business Administration and Jim Dinning has a Bachelor of Commerce Honors degree and served as Alberta Provincial Treasurer from 1992 to 1997. All have significant experience as senior executives and/or board members of public companies.

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

The complete Audit Committee Mandate is presented in the Fund's 2006 Information Circular.

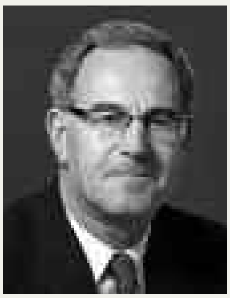
COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The members of the Compensation and Corporate Governance Committee are: Alain Ferland (Chair), John Bechtold, Robert Brawn and David Spencer. All members are Independent except for David Spencer, a partner in the legal firm of Bennett Jones LLP which provides legal services to Parkland. The Chair is appointed by the Board of Directors. The Committee met five times in 2005 and had a 100 percent attendance rate.

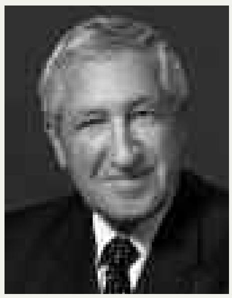
The Compensation and Corporate Governance Committee is appointed by the Board of Directors to assist the Board in carrying out its responsibility for the stewardship of the Corporation as well as in meeting its disclosure and continued listing requirements. The Committee examines the nomination of Directors and appointment of senior managers of the Corporation as well as their overall compensation and makes recommendations to the Board; it also leads in the development and review of a succession plan. The Committee also has the general responsibility for developing the Corporation's approach to governance issues and recommending an effective corporate governance process to the Board consistent with the TSX guidelines.

The complete Mandate for the Compensation and Corporate Governance Committee is presented in the Fund's 2006 information Circular.

Board of Directors



John F. Bechtold



Robert G. Brawn

Michael W. Chorlton

Jim Dinning

Alain Ferland

JOHN F. BECHTOLD Mr. Bechtold has over 35 years experience in the North American Petroleum Industry including Gulf Oil Corporation, Gulf Canada and Petro-Canada. During his career he held senior leadership positions in the upstream, mid-stream and downstream segments of the business including 15 years in crude oil and refined product supply. Mr. Bechtold is a current Board Member of the British Columbia Oil and Gas Commission. Past Board positions include Canada's Energy Supplies Allocation Board, the Industry Advisory Board to the IEA, the Canadian Energy Research Institute and the Canadian Propane Gas Association. Mr. Bechtold has served on the Board since August 10, 2006.

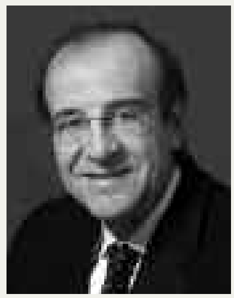
ROBERT G. BRAWN Mr. Brawn brings significant experience to Parkland's Board of Directors, having held various management roles with companies operating in the oil and gas industry. Mr. Brawn holds several directorships that span a variety of industries, including banking, energy, construction and retail. He is currently Chairman Emeritus of Canetic Resources Trust, and a Director of ATB Financial, Zapata Energy Corporation, Black Diamond Income Fund, Calgary Airport Authority and several private companies. He is Chairman of Grande Cache Coal Corporation and the Van Horne Institute (Transportation Studies Policy Group). Mr. Brawn has served on the Board since November 13, 1996.

MICHAEL W. CHORLTON Mr. Chorlton's career progressed from a major petroleum company through agribusiness and high technology. Over a 16-year career at Imperial Oil and Exxon Chemical he occupied leadership positions related to Marketing, Logistics, Customer Service, Planning, Finance, Business Development and Plant Operations. In 1992 Mr. Chorlton became President and CEO of Saskferco Products Inc. of Regina, Saskatchewan where he took the company from its $440 million green-field investment in an ammonia/urea complex to high levels of reliability and profitability. Prior to joining Parkland, Mr. Chorlton served for six years as a Senior Vice President of Renessen LLC, a biotechnology joint venture in the Chicago area. Mr. Chorlton became President and CEO of Parkland on September 6, 2005 and has served on the Board since May 5, 2006.

JIM DINNING Mr. Dinning is the non-executive Chair of Western Financial Group Inc., an Alberta-based western Canadian financial services company. Prior to 2005, Mr. Dinning served as Executive Vice President of TransAlta Corporation. Before joining TransAlta, he held several key positions during his 11 years as a member of the legislative assembly of Alberta, including Provincial Treasurer (1992 to 1997). He is also a Director of Western Financial Group Inc., Finning International Inc., Oncolytics Biotech Inc., Russel Metals Inc., Shaw Communications Inc. and Liquor Stores Income Fund. Mr. Dinning was appointed as a Trustee on August 19, 2004 and was elected a director of Parkland Industries Ltd. on May 5, 2005 when Parkland reorganized to a corporate trustee model.

ALAIN FERLAND Mr. Ferland has over 25 years of experience in the petroleum industry and has acted as a member of the senior management team in oil, plastic, airport and biotechnology companies. Mr. Ferland has extensive experience in strategic planning, operations, logistics, hedging, sales, marketing, project management, corporate services, IPO process and mergers. He is the President of EFFA Management Inc. and has served on the Board since June 22, 1999. He is Chairman of the Compensation and Corporate Governance Committee. He is President and also serves on the Board of TORR Canada Inc. Mr. Ferland has been President of Aéroports de Montréal, IPL Inc., Geneka Biotechnologies and prior to that was President of Ultramar Ltd. and Vice President of Ultramar Diamond Shamrock.

Kris Matthews



Jim Pantelidis

Ron Rogers

David A. Spencer

KRIS MATTHEWS Ms. Matthews is Managing Partner of Matthews Group LLP, a public accounting firm providing consulting and accounting services to entrepreneurial companies. She joined Parkland's Board on May 8, 2003, and is a member of the Audit Committee. Ms. Matthews is a Director of BlueGrouse Seismic Solutions Ltd. and PRC Trademarks Inc., and a Trustee for Prime Restaurants Royalty Income Fund, which is perhaps best known for its Eastside Mario's restaurants. She is Chair of the Audit Committees for both BlueGrouse and Prime. In 2006 she received her designation of ICD.D from the Institute of Corporate Directors. Ms. Matthews was awarded her Fellowship (FCMA) for service to her profession and the community in 2002. She is a Past-Chair of CMA Alberta and the CMA Alberta Governance Committee, and represented CMA Alberta as a national board member.

JIM PANTELIDIS Mr. Pantelidis is currently Chairman of the Board of Parkland and has served as a Director of Parkland since September 7, 1999. Mr. Pantelidis is also Chairman and Director of The Consumers Waterheater Income Fund since 2002. He also serves on the Boards of RONA Inc. and Industrial Alliance Insurance and Financial Services Inc. From 2002 to 2006 Mr. Pantelidis was on the Board of FisherCast Global Corporation and served as Chairman and Chief Executive Officer from 2004 to 2006. Prior to this, Mr. Pantelidis served as Chairman and Chief Executive Officer for the Bata International Organization. He also spent 30 years in the petroleum industry and was at one time, President of both the upstream and downstream divisions of Petro-Canada. Mr. Pantelidis holds a Bachelor of Science degree and a Master of Business Administration degree, both from McGill University.

RON ROGERS Mr. Rogers has over 35 years experience in various financial positions with Ernst & Young, Warrington Inc., the Crown Management Board of Saskatchewan, Moore Corporation and Shaw Communications Inc. On retirement in 2004 he was Senior Vice President and Chief Financial Officer of Shaw Communications. He received his Bachelor of Commerce Degree from St. Mary's University with concentrations on Philosophy, Economics and Accounting and subsequently earned his Chartered Accountancy designation with Ernst & Young. Mr. Rogers is currently a member of the Boards of Corus Entertainment, Pizza Pizza Royalty Fund, Transforce Income Fund and The Brick Furniture Company.

His community involvement has included such organizations as the Mississauga General Hospital Board, the Calgary Division of the United Way Executive Board, the Festival of Trees Executive Committee for the Children's Hospital, the Juvenile Diabetes Research Foundation and the Calgary Stampede Compensation and Pension Committee. Mr. Rogers has served on the Board since September 15, 2006.

DAVID A. SPENCER Mr. Spencer is a Partner with Bennett Jones LLP in Calgary, where he is co-leader of the firm's public markets practice group. He specializes in corporate finance, mergers and acquisitions and corporate governance. Mr. Spencer was appointed as a Trustee as part of the June 2002 re-organization into a Trust, and was elected as a director of Parkland Industries Ltd. in 2005 when Parkland reorganized to a corporate trustee model.


LARGE TRUCKS
ONLY
DIESEL
SMALL TRUCKS
and
VANS
DIESEL
REGULAR UNLEADED

Management's Discussion and Analysis

The following discussion and analysis of the results of operations and financial condition of Parkland Income Fund should be read in conjunction with the audited Financial Statements for the year ended December 31, 2006. The date of this discussion and analysis is March 7, 2007. Further information on Parkland Income Fund, including its Annual Information Form, is available from SEDAR at www.sedar.com.

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience stores and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

REVIEW OF OPERATIONS

Overview

Parkland is a marketer of transportation fuels and an operator of convenience stores in over 550 locations in western Canada. It transports fuel to its service station network through its Petrohaul division and third party carriers and it owns an industrial site in Bowden, Alberta, where it formerly operated a refinery. In December 2006, Parkland entered into agreements to re-activate portions of the Bowden refinery for the processing of oilfield drilling fluids. On January 24, 2007, Parkland acquired Neufeld, a leading supplier of fuel, propane and agricultural products in western Canada.

Fuel Marketing

Parkland operates service stations under three primary business models and various brands which focus on differing customer segments across eastern and central British Columbia, Alberta, Saskatchewan, Manitoba, northwestern Ontario, the Northwest Territories and the Yukon. The Parkland-owned brand names under which service stations are operated include the Fas Gas Plus, Fas Gas and Race Trac. It is also responsible for managing a portion of the independent dealer network of Imperial Oil Limited in Saskatchewan, Alberta (other than Calgary and Edmonton) and parts of northern and eastern British Columbia under the Esso brand name. Additionally, Parkland markets fuel through 12 cardlock facilities.

The three primary business models under which stations are run include: Parkland operated or corporate stations, which are managed and staffed by Parkland; commission operated stations, which are managed by an independent operator who provides staff in exchange for a commission on fuel volumes sold, and is primarily responsible for any ancillary businesses at the site and pays a rent to Parkland based on a percentage of other sales revenue generated; and independent dealer sites, which are sites owned or controlled by others who contract with Parkland for fuel supply at the site.

The following table sets out the number of service stations by brand in the Parkland network as of December 31, 2006.

	FAS GAS PLUS	FAS GAS	RACE TRAC	ESSO	TOTAL
Retail *(Parkland and commission operated)*	91	93	1	6	191
Wholesale *(Independent dealer)*	16	–	188	170	374
Total	107	93	189	176	565

Products sold through the network of service stations include gasoline and diesel fuel as well as propane at selected sites. Parkland's strategy is to increase overall sales volumes and average volumes per site within its current marketing area. The actual number of stations may increase, remain stable or drop as new sites are added and under-performing sites are closed or sold.

Parkland markets home heating fuel under the brand name Great Northern Oil from a bulk facility in Whitehorse, Yukon. This facility also supports 19 Fas Gas and Race Trac service stations located in northern British Columbia, the Yukon and the Northwest Territories.

Convenience Stores

In 1999, Parkland entered the convenience store business with a new brand, Short Stop Food Stores. As at December 31, 2006, there were 61 Short Stop and Short Stop Express convenience stores at sites that have Fas Gas Plus fuel stations. These stores offer a variety of food, beverage, snack and convenience products as well as lottery terminals and automated teller machines. Many of the stores are open 24 hours per day and, in many of these locations, offer customers the only 24-hour service in the area. Parkland also operates two convenience stores under the Your Express Mart brand.

Competition and Market Positioning

The wholesale and retail gasoline business is highly competitive, with margins ultimately dependent on the spread between crude oil, wholesale fuel costs and retail gasoline prices. Due to its focus on smaller markets, Parkland has limited exposure (11 percent of its retail sites) in the more competitive, larger urban markets where the retail gasoline sales are dominated by major oil companies and by more recent entrants such as grocery chains and large retailers. This non-urban focus means the Fund operates in markets where average sales volumes are lower but earnings are enhanced by typically more stable pricing and margins, lower overhead costs and less expensive real estate.

In recent years, the Fund has strategically focused on increasing its non-fuel revenue from its sites. The primary actions taken have been the Short Stop convenience store program and the Fas Gas Plus station upgrade program. By making investments in the sites, Parkland has realized the full benefit of the merchandise margins, net of operating costs, at the corporately operated convenience store sites and has been able to realize additional rents based primarily on percentages of merchandise sales at the commission operated sites. It is the Fund's intention to continue this Retail strategy as part of the broader growth strategy for the foreseeable future. During 2006, 20 sites were upgraded under this program and an additional 15 upgrades are planned for 2007.

In the independent dealer business, the Fund has focused on increasing its brand value to the operators. At the Race Trac sites, this has been accomplished through their loyalty program, scratch and win promotions, closing or debranding sites which did not meet certain criteria and pursuing larger volume and higher visibility sites. The Retail Branded Distributorship agreement with Esso also provides a national brand that Parkland can offer to independent operators in Alberta, Saskatchewan, British Columbia and the Northwest Territories.

In relation to the above strategy, the Fund's goals are to provide stable and modestly increasing cash flows for its Unitholders. Significant acquisitions in strategic areas will also be evaluated but are not considered necessary to meet the distribution goals.

YEARS ENDED DECEMBER 31, ($000s EXCEPT VOLUME AND PER UNIT AMOUNTS)		**2006**	2005	2004
Total Assets		**$ 172,459**	$ 133,019	$ 117,417
Total Long-term Liabilities		**5,829**	13,907	17,612
Sales Volume (millions of litres)		**1,501**	1,177	1,101
Net Sales and Operating Revenues		**1,199,866**	875,539	686,658
Cost of Sales and Operating Expenses		**1,062,809**	783,615	603,766
Gross Margin		**137,057**	91,924	82,892
Expenses				
Marketing, General and Administrative		**67,386**	55,223	52,363
EBITDA		**69,671**	36,701	30,529
Amortization of Capital Assets		**8,453**	8,077	7,828
Interest on Long-term Debt		**1,044**	873	738
Loss on Disposal of Capital Assets		**608**	727	1,414
Loss on Writedown of Refinery		**–**	–	25,310
Earnings (Loss) Before Income Taxes		**$ 59,566**	$ 27,024	$ (4,761)
Income Tax (Expense) Recovery		**(975)**	(2,055)	8,721
Net Earnings		**58,591**	24,969	3,960
Per Unit	– Basic	**4.57**	1.97	0.32
	– Diluted	**4.52**	1.96	0.31

NON-GAAP FINANCIAL MEASURES

In this document there are references to non-GAAP financial measures such as EBITDA and Cash Available for Distribution. EBITDA refers to Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization, Loss on Disposal of Capital Assets as well as the Loss on the Writedown of the Refinery and can be calculated from the GAAP amounts included in the Fund's financial statements. Management believes that EBITDA is a relevant measure to users of its financial information as it provides an indication of pre-tax earnings available to distribute to debt and equity holders in the Fund. The Fund's definition of EBITDA may not be consistent with other providers of financial information and therefore may not be comparable.

Cash Available for Distribution is defined in the Fund's Deed of Trust and related documents and generally represents the cash available to be distributed to the Fund's Unitholders. Cash Available for Distribution is calculated as EBITDA less interest expense, current income taxes, if any, and maintenance capital expenditures.

EBITDA is as defined above, while interest expense and current income taxes are GAAP measures. Maintenance Capital represents capital expenditures made by the Fund to maintain its current business operations. This differs from growth capital, which represents capital used to expand the Fund's business operations.

NET EARNINGS

Higher fuel volumes, higher average fuel margins and increased convenience store sales and margins all contributed to higher gross margins in 2006. The $45.2 million increase in gross margins were partially offset by a $5.2 million increase in marketing, general and administrative expenses over 2005. EBITDA in 2006 increased by $33 million over 2005, consistent with the increases in margins. Net earnings before income taxes for the year of $59.6 million were significantly higher than the $27.0 million reported in 2005 and a loss of $4.8 million reported in 2004.

VOLUMES

Gasoline and diesel volumes increased by 324 million litres in 2006 to 1.5 billion litres. The Fund's station upgrade program was successful in driving increased retail volumes from existing sites while the addition of the Esso sites led to increased volumes through the wholesale station network. Reseller volumes also increased to match product purchase availability. Retail volumes are driven by the number of stations in operation, general business and economic conditions, and weather and competitive conditions in various markets. Reseller volumes are more dependent on general industry supply and demand conditions. Parkland plans to continue to generate modest volume increases through general market growth, improved performance at existing sites and the addition of a limited number of new sites as opportunities arise.

SALES REVENUE

Net sales and operating revenue for the year ended December 31, 2006 were $1.2 billion, an increase of 37 percent over the prior year. Fuel sales revenue varies with fuel volumes, overall average crude prices and retail and wholesale margins. In 2006, fuel sales revenue increased to $1,140.2 million from $830.6 million in 2005, largely as a result of volume increases and higher average prices. Convenience store merchandise sales also increased with sales of almost $60 million in 2006 as compared to $45.0 million in 2005. Convenience store merchandise sales were up as a result of higher average sales per store and a larger number of stores in operation.

COST OF SALES AND GROSS MARGINS

Fuel cost of sales increased to $1,018.7 million in 2006 as compared to $750.5 million in 2005. Similar to sales revenue, cost of sales increased as a result of higher volumes and higher average per litre costs of fuel products. Fuel costs are generally driven by changes in the underlying cost of crude oil, which was on average six percent higher in 2006 than in the prior year. Convenience store merchandise cost of sales increased to $44.1 million in 2006 from $33.1 million in 2005, consistent with the increase in merchandise sales.

These factors led to gross margins of $137.1 million in 2006, which was $45.2 million higher than the $91.9 million achieved in 2005. This increase was primarily driven by higher average fuel margins which were 7.51 cents on a per litre basis compared to 6.21 cents the prior year. Additional increases resulted from a $3.7 million increase in convenience store margins and higher fuel volumes.

A key driver of margins is the Fund's ability to competitively purchase both fuel and convenience store merchandise. As one of the largest independent fuel retailers in Western Canada, the Fund has established positive relationships with the key fuel suppliers in its market area and has supply contracts with its three principal fuel suppliers. A majority of Parkland's fuel supply, measured by volume, has a term exceeding five years. These contracts provide the Fund with a consistent source of supply at competitive prices. Additionally, the growth in the convenience store network and the implementation of the Short Stop Express marketing program has improved the Fund's relationships with wholesalers and other merchandise suppliers, providing better pricing, increased incentives and additional promotional support.

EXPENSES

Operating and direct costs are sensitive to changes in fuel volume sales and, as a result, total costs of $47.3 million in 2006 were $7.0 million higher than the prior year. The majority of this increase related to the addition of the Esso RBD sites. Also included in operating and direct costs for the 2006 calendar year are $1.1 million for environmental remediation costs as compared to $0.8 million in 2005. The Fund incurred $2.9 million in maintenance expenses in 2006 related to service station upgrades and tank replacements. The Fund incurred $0.2 million in maintenance expenses in 2006 related to the Fas Gas Plus upgrade program, as compared to $1.5 million in 2005.

Generally, remediation costs for which the Fund is legally obligated are recorded as an Asset Retirement Obligation and expensed as accretion over the estimated life of the asset. Amounts included in remediation costs generally relate to costs at sites where the Fund decided to replace underground storage tanks even though it was not legally obligated to do so. It is the Fund's policy to upgrade tanks when a major site upgrade takes place, such as a conversion to a Short Stop convenience store. The Fund has a discretionary long-term tank replacement program and plans to continue incurring expenses annually to modernize its underground tank network and reduce its exposure to future environmental liabilities.

Marketing, general and administrative expenses were $20.0 million for the year ended December 31, 2006, an increase of 34.2 percent over 2005 expenses of $14.9 million. A substantial portion of the increase related to variable compensation driven by Parkland's increased profitability in 2006. Other sources of increased costs included staffing levels required due to increased sales volume, higher labor costs that were experienced throughout western Canada and consulting and professional fees related to special projects and studies.

REFINERY ASSETS

During 2006 Parkland conducted a major program of repairs to its storage tanks as well as some voluntary remediation at the Bowden refinery site. The cost of this program was approximately $2.0 million, which was substantially completed during 2006. The total of these repair costs together with operating costs, net of processing revenues was $2.0 million. With the repair program complete, Parkland expects this operation to become profitable in 2007. The continuing operations consist of a custom processing agreement with a petrochemical plant operator whereby selected hydrocarbons are upgraded into higher value products and returned to the operator.

CAPITAL ASSETS AND AMORTIZATION

Amortization expense increased to $8.5 million in 2006 from $8.1 million in 2005.

During 2006, the Fund expended $11.1 million in capital investments, of which $6.3 million was maintenance capital and $4.8 million was growth capital. The classification of capital as growth or maintenance is subject to judgment as many of the Fund's capital projects have components of both. It is the Fund's policy to treat all capital related to service station upgrades (i.e. Fas Gas Plus) as maintenance capital even though it includes the expectation of a financial return, while the construction of a new building on an existing site is considered growth capital.

The primary components of maintenance capital in 2006 were $2.8 million for service station upgrades, $2.1 million for tank replacements, $0.6 million for technology initiatives and $0.8 million for trucks and trailers.

The 2006 growth capital related primarily to major upgrades at existing retail sites and the addition of two new service station sites.

Parkland owns 110 of the sites in the Fas Gas and Short Stop retail chains, an industrial property in Red Deer which is used as a maintenance facility, a fuel terminal facility in Whitehorse and the refinery property.

Parkland operates its own fleet of trucks to meet its fuel hauling needs. The fleet of 36 trucks and 70 trailer units is owned by the Fund, either directly or through capital leases. The Fund's capital plans call for power units to be replaced every three years and trailers every ten years but the expenditure level can be accelerated or slowed depending on specific needs and financial performance. The Fund also has the option of entering into operating leases as an alternative to purchasing these units if it is financially beneficial. There were nine new power units added to the fleet in 2006 which were through operating lease arrangements.

INTEREST

For the year ended December 31, 2006 interest on long-term debt was $1.0 million which was $0.2 million higher than the prior year. Debt levels have decreased through the normal scheduled repayments while interest rates have increased, resulting in the modest increase in overall interest costs. Approximately 76 percent of the Fund's long-term debt bears interest at variable rates linked to prime.

INCOME TAXES

In 2006 the Fund retained taxable income within corporate subsidiaries, resulting in a tax provision of $1.0 million compared to $2.1 million for the year ended December 31, 2005. Parkland's income taxes payable are typically nominal as it is a trust and taxes are paid on distributions directly by the Unitholders in Parkland or in its subsidiary, Parkland Holdings Limited Partnership. The 2006 provision results from capital taxes and from retaining funds for corporate purposes.

The allocation of taxes to the Unitholders for 2006 is based on the calculated taxable income of the Fund as follows:

($000s)

Net income before tax	$ 59,566
Permanent differences	(339)
Timing differences	(1,017)
Taxable income	$ 58,210
Income retained in taxable entities in the Fund	(2,039)
Taxable income to allocate to Unitholders	$ 56,171
Distributions	56,171
Taxable portion of distributions	100%

QUARTERLY FINANCIAL INFORMATION

THREE MONTHS ENDED ($000s EXCEPT FUEL VOLUMES AND PER UNIT AMOUNTS)	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2006				
Fuel volumes *(millions of litres)*	**329**	**374**	**412**	**386**
Net sales and operating revenues	**$ 241,552**	**$ 320,166**	**$ 359,272**	**$ 278,876**
Net earnings	**5,566**	**21,889**	**16,735**	**14,401**
EBITDA	**8,186**	**24,357**	**27,683**	**9,445**
Earnings per unit *(restated)* – basic	**0.44**	**1.71**	**1.30**	**1.12**
– diluted	**0.43**	**1.69**	**1.30**	**1.10**
2005				
Fuel volumes *(millions of litres)*	268	290	322	297
Net sales and operating revenues	$ 177,081	$ 208,177	$ 258,901	$ 231,380
Net earnings	824	6,948	9,634	7,563
EBIDTA	3,243	9,424	12,546	11,488
Earnings per unit *(restated)* – basic	0.07	0.55	0.76	0.59
– diluted	0.06	0.54	0.76	0.59

The Fund's business is typically seasonal but can be significantly affected by events occurring throughout the year. In the first quarter, gasoline demand is relatively weak which causes excess supply and weaker market conditions. The second and third quarters significantly improve with spring and summer driving seasons and increased industrial and farm activity creating higher demand, while the fourth quarter sees a return to more average market conditions. In 2005, the third and fourth quarter margins were above expectations as a result of weather-related supply issues which resulted in increased margins. In 2006, margins exceeded historical levels, other than the latter part of 2005, in each of the quarters with the second and third quarters being exceptionally strong. Margins were influenced by supply shortages within the Western Canadian market as well as the North America wide market.

FOURTH QUARTER RESULTS

Volume

Gasoline and diesel volumes increased by 89 million litres in the fourth quarter of 2006 to 386 million litres, an increase of 30 percent compared to the same period in 2005. This substantial increase in fuel volume was due in large part to the expanded RBD program.

Sales Revenue

Net sales and operating revenue for the quarter ended December 31, 2006 were $278.9 million, an increase of 20.5 percent or $47.5 million over the same quarter in 2005. Fuel sales revenue increased to $263.7 million from $219.8 million in the prior year, an increase of 20 percent, as a result of volume increases. Convenience store merchandise sales also increased with sales of $15.2 million in 2006 as compared to $11.5 million in 2005, an increase of 32 percent.

Net Earnings

The results for the three months ended December 31, 2006 showed net earnings increased to $14.4 million from $7.6 million during the same period in 2005. At September 30, 2006 taxable income was significantly greater than distributions made to unitholders to date and a tax provision of $8.7 million was recorded as compared to $0.1 million at September 30, 2005. An increase in monthly distributions combined with special distribution payments at December 29, 2006 totaling $2.25 per unit reduced taxable income considerably which resulted in the Fund recording a $7.7 million income tax recovery in the fourth quarter of 2006.

Net earnings before tax decreased to $6.7 million from $8.8 million in 2005 and EBITDA decreased to $9.4 million from $11.5 million. The fourth quarter of 2005 was impacted significantly by weather related supply issues which lead to very strong margins during that period.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Parkland's working capital increased to $12.4 million at December 31, 2006 as compared to $2.1 million at December 31, 2005. This increase relates primarily to the accumulation of cash over the course of the year which added $28.2 million to working capital. This was partially offset by a $12.5 million increase in cash distributions declared and payable as a result of the year end special distribution. It is typical for the Fund to have minimal or negative non-cash working capital as a significant portion of its sales are on a cash basis, inventory turns quickly and average payable terms with vendors exceed average receivable terms with customers who have credit privileges. The Fund paid off $9.9 million of long-term debt in January, 2007. The cash balance at December 31, 2006 of $36.5 million increased from the December 31, 2005 balance of $8.3 million and the Fund also has available a $32 million line of credit to finance letters of credit and short-term cash flow needs.

Financing Activities

During the year ended December 31, 2006, Parkland decreased its long-term debt by $4.8 million as a result of normal repayment of existing term debt. At December 31, 2006 Parkland had $1.7 million in long-term debt (excluding current portions). Management believes that cash flow from operations will be adequate to fund maintenance capital, interest and targeted distributions. Growth capital expenditures in 2006 have been funded by existing cash balances and cash flow from operations. It is management's intent, on an ongoing basis, to finance growth capital through debt or the issue of additional units. Any additional debt would be serviced by anticipated increases in cash flow and it is expected that current debt to EBITDA ratios would be maintained.

Distributions

Commencing in July 2002 the Fund established a monthly distribution policy whereby holders of record on the last business day of a month would receive a distribution on the fifteenth, or the last business day prior to the fifteenth of the following month.

The following table sets forth the record date, date of payment, per Trust Unit amount of distributions paid and total cash distributed for 2006.

RECORD DATE	PAYMENT DATE	PER TRUST UNIT	TOTAL CASH DISTRIBUTED (000s)
January 31, 2006	February 15, 2006	$ 0.17	$ 2,104
February 28, 2006	March 15, 2006	$ 0.17	$ 2,107
March 31, 2006	April 13, 2006	$ 0.17	$ 2,109
April 28, 2006	May 15, 2006	$ 0.17	$ 2,111
May 31, 2006	June 15, 2006	$ 0.18	$ 2,239
June 30, 2006	July 14, 2006	$ 0.18	$ 2,240
July 31, 2006	August 15, 2006	$ 0.18	$ 2,241
August 31, 2006	September 15, 2006	$ 0.20	$ 2,491
September 29, 2006	October 13, 2006	$ 0.20	$ 2,491
October 31, 2006	November 15, 2006	$ 0.20	$ 2,491
November 30, 2006	December 15, 2006	$ 0.22	$ 2,741
December 29, 2006	January 15, 2007	$ 0.22	$ 2,744
December 29, 2006	January 15, 2007	$ 1.05[1]	$ 13,099
December 29, 2006	February 15, 2007	$ 1.20[2]	$ 14,963
Total distributions declared to Unitholders in 2006			$ 56,171

Notes: (1) Represents the first portion of a special distribution.
(2) Represents the second portion of the special distribution and was distributed to Unitholders by way of Trust Units.

On December 15, 2006 the Board of Directors met to review the results of operations for 2006, the cash balance on hand and the likelihood of completing an acquisition and declared a special distribution to be paid as to $1.05 per unit in cash on January 15, 2007 and as to $1.20 per unit in additional units on February 15, 2007.

The monthly distribution was increased to $0.24 per unit for holders of record on January 31, 2007.

Cash Available for Distribution

($000s)	FOR THE THREE MONTHS ENDED MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	FOR THE YEAR ENDED DECEMBER 31, 2006
Cash from operating activities	$ 13,208	$ 24,412	$ 51,336	$ (18,708)	**$ 70,248**
Net changes in non-cash working capital	(5,253)	(183)	(32,318)	35,712	**(2,042)**
Funds flow from operations	7,955	24,229	19,018	17,004	**68,206**
Add back (deduct):					
Interest on long-term debt	250	242	218	334	**1,044**
Unit incentive compensation	(48)	(93)	(101)	(99)	**(341)**
Accretion expense	(15)	(15)	(15)	(15)	**(60)**
Current taxes	44	(6)	8,523	(7,779)	**782**
Asset retirement obligation expenditures	–	–	40	–	**40**
EBITDA	8,186	24,357	27,683	9,445	**69,671**
Maintenance capital expended	(497)	(2,336)	(1,730)	(1,733)	**(6,296)**
Current taxes and interest	(294)	(236)	(8,741)	7,445	**(1,826)**
Cash available for distribution	7,395	21,785	17,212	15,157	**61,549**
Distributions paid in cash	6,320	6,590	7,223	21,075	**41,208**
Distributions paid in units	–	–	–	14,963	**14,963**
Total distributions	$ 6,320	$ 6,590	$ 7,223	$ 36,038	**$ 56,171**

Although it is typical for the Fund's cash flow to have seasonal fluctuations, it is management's current intention to pay consistent regular monthly distributions throughout the year based on estimated annual cash flows. The Directors review distributions quarterly giving consideration to current performance, historical and future trends in the business and the expected sustainability of those trends, as well as maintenance capital requirements to sustain performance.

During 2006, distributions represented a payout ratio of 80.6 percent of EBITDA or 91.3 percent of Cash Available for Distribution.

Contractual Obligations

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

($000s) YEAR ENDING DECEMBER 31	MORTGAGES, BANK LOANS AND NOTES PAYABLE	OPERATING LEASES	CAPITAL LEASES
2007	6,863	2,126	3,282
2008	254	1,828	84
2009	150	1,046	179
2010	–	522	101
2011	–	336	38
Thereafter	–	782	845

The Fund also has purchase commitments under its fuel supply contracts that require it to purchase approximately 1.6 billion litres of product over the next year.

Critical Accounting Estimate

At December 31, 2004, Parkland recorded the net estimated liability that would be realized if the refinery assets were remediated, dismantled and sold for salvage values. Estimated remediation costs and salvage values were supported by consultants' reports, while other costs were based on management estimates.

During 2006 the Fund entered into a custom processing agreement to toll produce fluids used in the oilfield. The commercial agreement is multi-year and utilizes a portion of the processing units at the refinery. The Fund is continuing to pursue other economically viable uses for the remaining processing units at the refinery and therefore any decision to dismantle, remediate and sell the refinery site has been deferred indefinitely. The obligations relating to future environmental remediation, however, continue to exist.

Assuming the Fund continues operations at the refinery, remediation for any potential environmental liabilities associated with a complete dismantling of the site would be delayed indefinitely. The Fund has estimated the cost of remediation on the basis that the refinery will continue to operate and that remediation would be part of a multi-year management plan. Remediation costs have been estimated by taking into account an extended time frame for remediation, the likely escalation of future costs of goods and services offset by the time value discount inherent in a deferred time frame and technology developments available to assist in remediation.

Actual costs and salvage values could differ significantly from these estimates when, and if, the refinery is remediated, dismantled and sold.

NEW ACCOUNTING PRONOUNCEMENTS

The Canadian Accounting Standards Board has recently issued new Handbook sections:

- 1530, Comprehensive Income;
- 3855, financial Instruments - Recognition and Measurement;
- 3861, Financial Instruments - Disclosure and Presentation; and
- 3865, Hedges.

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are either derivatives or held for trading. Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- certain financial instruments that qualify for hedging accounting.

Sections 3855 and 3865 make use of the term "other comprehensive income". Other comprehensive income comprises revenues, expenses, gains and losses that are excluded from net income. Unrealized gains and losses on qualifying hedging and instruments, unrealized foreign exchange gains and losses, and unrealized gains and losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standard. Section 3861 addresses the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These new standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. As we do not utilize derivative instruments, we do not expect these pronouncements to have a significant impact on our consolidated financial results however, our review of these pronouncements and their impact is ongoing.

Related Party Transactions

During 2006 the Fund paid $438,000 (2005 – $177,000) fees for legal services, including costs related to an acquisition, by a law firm of which a Director is a partner. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Outstanding Unit Data

As at February 28, 2007, the Fund had the following issued and outstanding units:

(000s)	NUMBER OF UNITS
Class B Limited Partnership Units	2,855
Class C Limited Partnership Units	1,566
Fund Units	11,393
	15,814
Outstanding options	404


Bello
gourmet coffee
BELLO GOURMET BEVERAGES
GOURMET COFFEE
CAPPUCCINO
TEA
ICED BEVERAGE
12 oz
16 oz
20 oz

NON CAPITAL RESOURCES

Employees

Parkland's ability to deliver on its strategy is contingent on retaining and acquiring employees with the proper skill sets to drive the key initiatives forward. As such, there is a focus on recruiting and retaining key employees. To date, the Fund has been successful at filling key positions as needed. Compensation plans for senior management have significant incentive arrangements, with overall compensation dependent on Parkland's performance, divisional operating performance and results on individually identified key initiatives.

Parkland has an active Human Resources department, with compensation plans and benefits reviewed on an ongoing basis to best meet the needs of Parkland and the various employee groups it includes. In lieu of a pension plan, Parkland provides a unit purchase plan with matching employer contributions. A profit sharing plan is also available to most employees with greater than one year service. Initiatives like these are intended to bring a sense of ownership to the employee groups as increases in profits and unit prices are beneficial to all.

Safety

In addition to other risks, the Fund's primary business involves the transportation and sale of fuel products, which have an inherently high degree of risk. The Fund provides training to all staff as required to mitigate these risks and has operations and response manuals to cover common situations. Safety bonuses are also provided to employees in higher risk roles as a means of motivating safe performance of duties.

Parkland has a Health, Safety & Environment ("HSE") Officer and an HSE Committee. The HSE Committee represents all areas of the Fund's business and ensures all identified risks are properly mitigated and that procedures and documentation are consistent across the entire organization. In 2006, Parkland satisfactorily completed an external audit of its safety program and facilities.

Technology

Parkland utilizes technology to assist with the administration and control of its operations. Technology initiatives are primarily implemented in-house with outside consultants used only to assist in specific areas. Parkland's technology initiatives include upgrading Point of Sale systems at convenience store and service station sites, upgrading cardlock hardware and software; and continued maintenance and security related to overall network administration and Emergency Response Plan processes. Based on the current long-range technology plans, there are no significant issues anticipated that will cause undue risk to Parkland's business related to required or planned technology changes.

Internal Controls

Parkland's Board and management are aware of regulations related to internal controls certification. As such, there is currently an initiative to review and enhance existing systems documentation, analyze risks and identify and test key controls. The project is being managed by consultants and the controls documentation is substantially complete except for work related to the Neufeld acquisition. No major controls gaps have been identified. The Fund believes that it will be able to continue to comply with regulations as required.

BUSINESS RISKS

RISKS RELATED TO THE BUSINESS AND THE INDUSTRY

Retail Pricing and Margin Erosion

Retail pricing for motor fuels is very competitive, with major oil companies and new entrants such as grocery chains and large retailers active in the marketplace. From time to time, factors such as competitive pricing, seasonal over-supply and lack of responsiveness of retail pricing to changes in crude oil costs can lead to lower margins in the Fund's business. This is normally limited to seasonal time frames or limited market areas but could occur more extensively. Furthermore, difficult fuel market conditions may also adversely affect the Fund's major customers and create increased credit risk. These risks are partially mitigated by the Fund's other sources of revenue, conservative credit policies, geographic diversification and by the wholesale business, which typically would only share in a portion of any market erosion.

Competition

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

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

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

Credit

The Fund grants credit to customers ranging from small independent service station operators to larger reseller accounts. These accounts may default on their obligations. The Fund manages this exposure through rigorous credit granting procedures, typically short payment terms and security interests where applicable. We attempt to closely monitor financial conditions of our customers.

Safety and Environmental

The operation of service stations, refinery facilities and petroleum transport trucks carry an element of safety and environmental risk. To prevent environmental incidents from occurring, the Fund has extensive safety and environmental procedures and monitoring programs at all of its facilities. To mitigate the impact of a major accident, Parkland has emergency response programs in place and provides its employees with extensive training in operational responsibilities in the event of an environmental incident. While the Fund is continually monitoring and striving to improve its performance in this area, there can be no assurance that risks are eliminated.

Dependence on Key Suppliers

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

The Fund is attempting to mitigate this risk by diversifying its supply portfolio to include substantial volumes from each of its major suppliers and growing to a level of annual sales volumes that will offer potential suppliers a compelling share of the fuel supply business in our regional market. A majority of Parkland's fuel supply, measured by volume, has a term exceeding five years.

Economic Conditions

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

Dependence on Key Personnel

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

Alternate Fuels

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

Technology

At the operational level, the Fund relies on electronic systems for recording of sales and accumulation of financial data. A major breakdown of computer systems would disrupt the flow of information and could cause a loss of records. This is mitigated by redundancies, emergency response plans and back-up procedures. The company obtains credit card information in its normal course of business. Loss or theft of such information would be damaging to the company. This is mitigated by securities procedures.

Insurance

Although we have a comprehensive insurance program in effect, there can be no assurance that potential liabilities will not exceed the applicable coverage limits under our insurance policies. Consistent with industry practice, not all risk factors are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis. We do not maintain insurance coverage for environmental damage.

Management and Operations of Industries LP

The Board of Directors of Parkland Industries Ltd. oversees the management and operation of the Fund's operating entities. As a result, holders of Units of Parkland will have limited say in matters affecting the operation of the business and, if such holders are in disagreement with the decisions of the Board of Directors, they will have limited recourse. The control exercised by the Board of Directors may make it more difficult for others to attempt to gain control or influence the activities of the operating entities.

Interest Rates

Parkland has certain floating rate loans and may be negatively impacted by increases in interest rates, the effect of which increases would be to reduce the amount of cash available for distributions. In addition, the market price of the Units at any given time may be affected by the level of interest rates prevailing at such time.

Government Legislation

Transportation fuel sales are taxed by the Federal (GST and excise tax), Provincial and, in some cases, Municipal governments. Increases in taxes are possible and could negatively affect demand for, or margin of the Fund's products.

Refinery Operating Permit

The refinery currently operates as a toll-based petrochemical processing site. The current operating permit expires in 2007 and a new permit would be required to allow for continued use or for alternative uses of the facility. Parkland intends to apply for a new permit.

If operations at the refinery are not continued Parkland may incur significant remediation costs.

Regional Economic Conditions

The Fund's revenues may be negatively influenced by changes in regional or local economic variables and consumer confidence. External factors that affect economic variables and consumer confidence and over which the Fund exercises no influence include unemployment rates, levels of personal disposable income and regional or economic conditions. Changes in economic conditions could adversely affect consumer spending patterns, travel and tourism in certain of the Fund's market areas. Some of our sites are located in markets which are more severely affected by weak economic conditions.


FAS GAS
SHORT STOP
SELF SERVE

Risks Related to the Structure of the Fund

The following items refer to the structure of the Fund and the legal entities that are contained within this structure. The structure is described in greater detail in the Annual Information Form and the 2006 Information Circular. Parkland Income Fund (the "Fund") owns Parkland Income Trust (the "Trust") which in turn owns a portion of Parkland Holdings Limited Partnership ("Holdings LP"). The remainder of Holdings LP is held by investors through the Class B and Class C Limited Partnership Units referred to in note 6 of the financial statements. Holdings LP owns Parkland Industries Limited Partnership ("Industries LP") which conducts most of the business of the Fund. Holdings LP also owns Parkland Industries Ltd. (the "Administrator") which is the general partner of Industries LP and also owns Parkland Refining Ltd. which in turn holds the Bowden refinery assets.

Cash Distributions are Not Guaranteed and will Fluctuate with Performance of the Business

Although the Fund intends to distribute the interest and distributions income earned by the Fund, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Business and transferred indirectly to the Fund.

The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and the actual cash amounts distributed to the Fund, directly and indirectly, by the Trust, Holdings LP and Industries LP.

Capital Investment

The timing and amount of capital expenditures will directly affect the amount of cash available for distribution to Unitholders. Distributions may be substantially reduced at times when significant capital or other expenditures are made.

Nature of Units

Securities like the Units of Parkland are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trusts, Holdings LP, Industries LP or the Administrator and should not be viewed by investors as Trust Units, Trust Notes, Holdings LP Units, Industries Participating LP Units or Parkland Shares. As holders of Units of Parkland, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets will be Trust Notes and Trust Units. The price per Unit is a function of anticipated Distributable Cash and other market factors.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of the Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unitholder Limited Liability

The Fund Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs or for any act or omission of the Trustee and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, each Unitholder's share of the Fund assets as represented by the Unit certificates. The Fund Declaration of Trust further provides that all written instruments signed by or on behalf of the Fund shall contain a provision or be subject to an acknowledgment to the effect that such obligation will not be binding upon Unitholders personally and that such provision or acknowledgment shall be held in trust and enforced by the Trustee for the benefit of the Unitholders.

However, in conducting its affairs, the Fund will assume certain contractual obligations and may have to assume further obligations in the future. Although the Fund will use reasonable efforts to have any contractual obligations modified so as not to have such obligations binding upon any of the Unitholders personally, it may not obtain such a modification in all cases. To the extent that any claims under such contracts are not satisfied by the Fund, there is a risk that a Unitholder will be held personally liable for obligations of the Fund where the liability is not disavowed as described above. Notwithstanding the terms of the Fund Declaration of Trust, Unitholders may not be protected from liabilities of the Fund to the same extent as a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Fund (to the extent that claims are not satisfied by the Fund Assets) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities.

The possibility of any personal liability of this nature arising is considered unlikely. The *Income Trusts Liability Act* (Alberta) came into force on July 1, 2004. The legislation provides that a Unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the legislation came into force. The business of the Fund, the Trust, Holdings LP and Industries LP, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions so as to avoid, as far as possible, any material risk of liability to the Unitholders for claims against the Fund including obtaining appropriate insurance, where available, for the operations of the Fund and Industries LP and their subsidiaries and ensuring that all written agreements signed by or on behalf of the Fund include a provision that such obligations are not binding upon Unitholders personally. However, there can be no assurance that a Unitholder will not be subject to liability in the future.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the Trustee may distribute the Fund Notes, Trust Notes, Trust Units or Holdings LP Units directly to the Unitholders, subject to obtaining any required regulatory approvals. Fund Notes, Trust Notes, Trust Units or Holdings LP Units so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans and other registered plans, depending upon the circumstances at the time.

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for the consideration and on those terms and conditions as are established by the Directors without the approval of any Unitholders. Additional Units will be issued by the Fund on the exchange of Rollover LP Units.

Restrictions on Potential Growth

The payout by Industries LP of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Industries LP and its cash flow.

Investment Eligibility and Foreign Property

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income trusts, registered education savings plans or other registered plans or that the Units will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

Income Tax Matters

On October 31, 2006, the Department of Finance (Canada) announced a Tax Fairness Plan which, in part, proposed changes to the manner in which certain flow-through entities and the distributions from such entities are taxed. On December 21, 2006, Finance released draft amendments to the Tax Act to implement some of those changes. Finance invited constructive commentary on the technical aspects of the draft amendments to the Tax Act prior to January 31, 2007, following which Finance has indicated that it will introduce legislation to implement all components of the Tax Fairness Plan. The summary below is based strictly on the general information found in the background paper issued by Finance at the time of the October 31, 2006 announcement (which is not legislation), the Guidelines (as defined below) issued by Finance on December 15, 2006, and the draft amendments to the Tax Act released on December 21, 2006. No assurance can be given that the final legislation implementing the 2006 Proposed Changes will be consistent with the foregoing or that Canadian federal income tax law respecting income trusts and other flow-through entities will not be further changed in a manner which adversely affects Parkland and its Unitholders.

To the extent that changes, including the 2006 Proposed Changes, are implemented, such changes could result in the income tax considerations described below being materially different in certain respects. The 2006 Proposed Changes, if enacted, would apply a tax on certain income earned by a SIFT (Specified Investment Flow-Through) trust, as well as taxing the taxable distributions received by investors from such entities as dividends. Specifically, Parkland will be subject to entity level taxation, which will reduce the amount of cash available for distribution to the Unitholders. Based on the proposed rate of entity level taxation, the tax on income (other than taxable dividends) distributed by Parkland to its Unitholders would approximate the tax rate applicable to income earned by Canadian public corporations. Based on information released by Finance in conjunction with the 2006 Proposals, the applicable rate in 2011 would be 31.5 percent but this is subject to change between now and 2011. Upon substantive enactment Parkland will record the relevant future tax obligation.

Distributions received by Unitholders beginning January 1, 2011 (subject to the 2006 Proposed Changes applying to Parkland prior to 2011) would be characterized as eligible dividends received from a Canadian public corporation. Generally, individual Unitholders resident in Canada would be subject to tax based on the enhanced gross-up and dividend tax credit applicable to eligible dividends. Unitholders subject to the highest marginal rate of tax would receive an after-tax return from their now reduced distribution of income approximately equal to the after-tax return if the pre-tax income of the SIFT had been distributed directly to and taxed in the hands of the Unitholders. However, reduced distributions will be an absolute cost to other types of Unitholders including pension funds, Registered Retirement Savings Plans and non-residents who would not benefit from characterization of the distribution as dividends.

Pursuant to the 2006 Proposed Changes, Parkland will constitute a SIFT trust and, as a result, Parkland and its Unitholders will be subject to the 2006 Proposed Changes. It is assumed for the purposes of this summary that Parkland will be characterized as a SIFT trust.

Subject to the "undue expansion" issue discussed below, as currently drafted, for income trusts the units of which were publicly traded as of October 31, 2006, such as Parkland, there will be a four-year transition period and the 2006 Proposed Changes will not apply until 2011. However, the 2006 Proposed Changes also indicate that the application date of 2011 is subject to the possible need to foreclose inappropriate new avoidance techniques. The 2006 Proposed Changes indicate that, as an example, while there is now no intention to prevent existing income trusts from "normal growth" prior to 2011, any "undue expansion" of an existing income trust (such as might be attempted through the insertion of a disproportionately large amount of additional capital) could cause this to be revisited. On December 15, 2006, Finance issued a press release that provided guidelines with respect to the meaning of "undue expansion" and "normal growth" (the "Guidelines"). The Guidelines indicate that no change will be recommended to the 2011 date in respect of any SIFT whose equity capital grows as a result of issuances of new equity (which includes Trust Units, debt that is convertible into Trust Units, and potentially other substitutes for such equity), before 2011, by an amount that does not exceed the greater of $50 million and an objective "safe harbour" amount based on a percentage of the SIFT's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of a SIFT's issued and outstanding publicly-traded units, not including debt, options or other interests that were convertible into units of the SIFT).

For the period from November 1, 2006 to the end of 2007, the Guidelines provide that a SIFT's safe harbour will be 40 percent of the October 31, 2006 benchmark. In the case of Parkland, the aggregate of the offering of Trust Units and the Rollover LP Units issued on the acquisition of Neufeld Petroleum do not exceed the applicable limit of 40 percent equity growth for the period extending from November 1, 2006 to December 31, 2007 and thus should not cause, by themselves, Parkland to be subject to the 2006 Proposed Changes prior to 2011. It is Parkland's current intention to maintain its status so that it will not be subject to the 2006 Proposed Changes until January 1, 2011. However, under the 2006 Proposed Changes, in the event that Parkland issues additional Trust Units or convertible debentures (or other equity substitutes) on or before 2011, Parkland may become subject to the 2006 Proposed Changes prior to 2011. No assurance can be provided that the 2006 Proposed Changes will not apply to Parkland prior to 2011.

There can be no assurance that the applicable tax rules will not be changed in the future in a way that could adversely impact the Fund and/or Unitholders.

There can be no assurance that the Fund will continue to qualify as a mutual fund trust within the meaning of the Tax Act. The consequences of not being a mutual fund trust include the following:

- The Units would cease to be qualified investments under the aforementioned plans which can have negative tax consequences to such plans and their annuitants and beneficiaries;
- The Fund would be required to pay a tax under Plan XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for certain Unitholders, including non-resident persons and residents of Canada who are exempt from Part I tax;

- The Units would be foreign property for certain Unitholders and other persons subject to tax under Part XI of the Tax Act. The February 23, 2005 Canadian Federal Budget (the "2005 Budget") proposed to eliminate the limit in respect of foreign property that may be held in the above noted plans for months which end in 2004 and for subsequent years. However, no assurance can be provided that the Tax Act will be amended in accordance with the 2005 Budget or at all; and
- The Units would constitute taxable Canadian property for the purposes of the Tax Act, potentially subjecting non-residents of Canada to tax pursuant to the Tax Act on the disposition (or deemed disposition) of such Units.

Controls Environment

Management is responsible for the preparation and fair presentation of the consolidated financial statements. We have established disclosure controls and procedures, internal controls over financial reporting, and corporate-wide policies to provide that Parkland's consolidated financial position, results of operations and cash flows are presented fairly. Our disclosure controls and procedures are designed to ensure timely disclosure and communication of all material information required by regulators.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

The Fund, under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures pursuant to Multinational Instrument 52-109 "Certificate of Disclosure in Issuers' Annual and Interim Filings" as of the end of the period covered by this report. Based on the evaluations, it was concluded that our disclosure controls and procedures were effective as of December 31, 2006 to provide reasonable assurance that information required is recorded, processed, summarized and reported within the time periods specified by the applicable Canadian securities regulators. Furthermore, our disclosure controls and procedures include controls and procedures designed to provide reasonable assurances that information required to be disclosed in reports filed or submitted under applicable Canadian securities regulations is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Fund has a Disclosure Committee, consisting of four management members, that approves all items for public disclosure and also considers whether all items required to be disclosed are disclosed.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STOP
Special
$1.99

Management's Responsibility for Financial Statements

The accompanying financial statements of Parkland Income Fund have been prepared by management in accordance with generally accepted accounting principles. Parkland's accounting procedures and related systems of internal controls are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Fund is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

PricewaterhouseCoopers LLP have been appointed by the Unitholders of Parkland to serve as the Fund's external auditors. They have examined the financial statements of the Fund for the years ended December 31, 2006 and 2005.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the information contained in the financial statements of Parkland which are contained in this interim report.

MICHAEL W. CHORLTON
President and CEO

Red Deer, Alberta
March 6, 2007

JOHN G. SCHROEDER
Vice President and CFO

Red Deer, Alberta
March 6, 2007

Auditors' Report

TO THE UNITHOLDERS OF PARKLAND INCOME FUND

We have audited the consolidated balance sheets of Parkland Income Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the two-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta
March 6, 2007

Consolidated Balance Sheet

($000s)	DECEMBER 31, **2006**	DECEMBER 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 36,462**	$ 8,290
Accounts receivable	**40,294**	34,253
Inventories	**20,351**	18,962
Prepaid expenses and other	**3,874**	1,570
	100,981	63,075
Capital assets *(Note 2)*	**68,541**	66,454
Other	**1,499**	1,859
Future income taxes *(Note 7)*	**1,438**	1,631
	$ 172,459	$ 133,019
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 62,124**	$ 49,669
Distributions declared and payable	**15,842**	3,342
Income tax payable	**459**	1,138
Long-term debt - current portion *(Note 5)*	**10,145**	6,862
	88,570	61,011
Long-term debt *(Note 5)*	**1,651**	9,749
Refinery remediation accrual *(Note 3)*	**3,038**	3,038
Asset retirement obligations *(Note 4)*	**1,140**	1,120
	$ 94,399	$ 74,918
UNITHOLDERS' CAPITAL *(Note 6)*		
Class B Limited Partners' Capital	**12,310**	13,055
Unitholders' Capital	**65,750**	45,046
	78,060	58,101
Commitments *(Note 8)*		
	$ 172,459	$ 133,019

James Pantelidis
Chairman of the Board

Michael W. Chorlton
President and CEO

Consolidated Statement of Earnings and Retained Earnings

FOR THE YEARS ENDED DECEMBER 31, ($000s, EXCEPT PER UNIT AMOUNTS)	**2006**	2005
Net sales and operating revenue	**$ 1,199,866**	$ 875,539
Cost of sales and operating expenses	**1,062,809**	783,615
Gross margin	**137,057**	91,924
Expenses		
Operating and direct costs	**47,342**	40,338
Marketing, general and administrative	**20,044**	14,885
Amortization	**8,453**	8,077
Interest on long-term debt	**1,044**	873
Loss on disposal of capital assets	**608**	727
	77,491	64,900
Earnings before income taxes	**59,566**	27,024
Income tax expense *(Note 7)*		
Current	**782**	1,726
Future	**193**	329
	975	2,055
Net earnings	**$ 58,591**	$ 24,969
Retained earnings, beginning of year	**–**	–
Allocation to Class B Limited Partners *(Note 6)*	**(13,581)**	(6,859)
Allocation to Unitholders *(Note 6)*	**(45,010)**	(18,110)
Retained earnings, end of year	**$ –**	$ –
Net earnings per unit *(Note 1)*		
– basic	**$ 4.57**	$ 1.97
– diluted	**$ 4.52**	$ 1.96
Units outstanding *(Note 6)*	**12,861**	12,338

Consolidated Statement of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, ($000s)	**2006**	2005
CASH PROVIDED BY OPERATIONS		
Net earnings	**$ 58,591**	$ 24,969
Add (deduct) non-cash items		
Amortization	**8,453**	8,077
Loss on disposal of capital assets	**608**	727
Unit incentive compensation *(Note 6)*	**341**	181
Accretion expense	**60**	60
Asset retirement obligation expenditures	**(40)**	–
Future taxes	**193**	329
Funds flow from operations	**68,206**	34,343
Net changes in non-cash working capital *(Note 10)*	**2,042**	(1,366)
Cash from operating activities	**70,248**	32,977
FINANCING ACTIVITIES		
Long-term debt repayments	**(4,815)**	(4,483)
Distributions to Class B Limited Partners	**(12,934)**	(6,761)
Distributions to Unitholders	**(28,274)**	(17,111)
Fund units issued	**2,235**	1,799
Proceeds from long-term debt	**–**	3,458
Net changes in non-cash working capital *(Note 10)*	**12,500**	1,833
Cash used for financing activities	**(31,288)**	(21,265)
INVESTING ACTIVITIES		
Recovery in other assets	**360**	242
Purchase of capital assets	**(12,846)**	(8,812)
Proceeds on sale of capital assets	**1,698**	224
Refinery remediation expenditures	**–**	(362)
Cash used for investing activities	**(10,788)**	(8,708)
Increase in cash	**28,172**	3,004
Cash and cash equivalents, beginning of year	**8,290**	5,286
Cash and cash equivalents, end of year	**$ 36,462**	$ 8,290

Notes to Consolidated Financial Statements

December 31, 2006

Dollar and unit amounts presented in tables are in thousands, except per unit information.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience store and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries, partnerships and trusts. All significant accounts and transactions between consolidated entities are eliminated.

The LP Units are, to the greatest extent possible, the economic equivalent to a Unit in the Fund. They are exchangeable by the holder on a one-for-one basis into Units in the Fund until June 28, 2008. In certain circumstances, and at any time after June 30, 2008, the Fund may compel the exchange of the LP Units. As such, the LP Units are treated as being equivalent to Fund Units.

Use of Estimates

The preparation of the financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

Estimates are used when accounting for items such as allowance for doubtful accounts, asset retirement obligations, the refinery closure accrual, amortization and income taxes.

Inventories

The Fund values its inventories at the lower of cost and market value. The Fund uses the last-in first-out (LIFO) method of determining the cost of product inventory.

Amortization

Amortization is provided for on a straight line basis over the estimated useful lives of assets at the following annual rates:

Land improvements	4 percent
Buildings	5 percent
Equipment	10 - 20 percent
Assets under capital lease	10 - 20 percent

Income Taxes

Income earned directly by the Limited Partnership is not subject to income taxes as its income is taxed directly to the Limited Partnership unitholders. Income earned in the Fund and distributed to the Fund unitholders is taxed directly to the Fund unitholders. Income taxes incurred by taxable entities controlled by the Fund are accounted for using the future method. Under this method, the Fund recognizes a future tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow. Similarly, the Fund recognizes a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions.

Long-term future tax assets relate primarily to the difference in the carrying value of the refinery assets to the tax basis.

Asset Retirement Obligations

The estimated future costs to remove underground fuel storage tanks at locations where the Fund has a legal obligation to remove these tanks is recorded as Asset Retirement Obligations at the time the tanks are installed. A corresponding increase to the carrying value of the fuel storage tanks is also recorded at installation. The Fund recognizes accretion expense in connection with the discounted retirement obligations and amortization in connection with the increase in carrying value over the estimated remaining life of the respective underground fuel storage tanks.

Long-Term Debt

Capital lease obligations, which relate to transactions which are similar in nature to a purchase, are capitalized and included in long-term debt.

Earnings Per Unit

Basic earnings per unit are calculated on the weighted average number of units outstanding for the period. Diluted earnings per unit are calculated by application of the Treasury Stock Method. Under this method, the diluted number of units are calculated based upon the weighted average number of units outstanding for the period plus the dilutive effect of the exercise of those employee options which were "in-the-money" during the period. Special distributions to unitholders in the form of additional units are recorded at the declaration date. The computation of earnings per unit for prior years are retroactively restated to reflect the change in units as a result of special distributions in the form of new units issued.

Revenue

The Fund recognizes revenue on its sale of goods when title passes to the purchaser.

Grants of Options and Restricted Units

The Fund accounts for its grants of options and restricted units in accordance with the fair value based method of accounting for stock-based compensation.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

Prior Year Numbers

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

1. EARNINGS ANALYSIS AND EARNINGS PER UNIT

	2006	2005
Net earnings	**$ 58,591**	$ 24,969
Earnings per unit		
– basic	**$ 4.57**	$ 1.97
– diluted	**$ 4.52**	$ 1.96
Equivalent units outstanding, beginning of year	**12,727**	12,610
Weighted average of equivalent units issued pursuant to distribution reinvestment plan	**15**	18
Weighted average of equivalent units issued pursuant to exercise of unit options	**83**	61
Denominator utilized in basic earnings per unit	**12,825**	12,689
Incremental equivalent units outstanding that were "in-the-money"	**138**	67
Denominator utilized in diluted earnings per unit	**12,963**	12,756

Equivalent units outstanding at January 1, 2005 has been restated for the retroactive change resulting from the special distribution of units on December 29, 2006.

2. CAPITAL ASSETS

DECEMBER 31, 2006	**COST**	**ACCUMULATED AMORTIZATION**	**NET BOOK VALUE**
Land	**$ 13,069**	**$ –**	**$ 13,069**
Land improvements	**6,940**	**2,278**	**4,662**
Buildings	**24,738**	**10,530**	**14,208**
Assets under capital lease	**14,038**	**7,996**	**6,042**
Equipment	**63,420**	**32,860**	**30,560**
	$ 122,205	**$ 53,664**	**$ 68,541**

DECEMBER 31, 2005	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 14,891	$ –	$ 14,891
Land improvements	6,490	2,025	4,465
Buildings	23,371	9,576	13,795
Assets under capital lease	14,691	6,730	7,961
Equipment	58,696	33,354	25,342
	$ 118,139	$ 51,685	$ 66,454

3. REFINERY REMEDIATION ACCRUAL

In December 2004, the Fund reduced the carrying value of its Bowden refinery and recorded a net liability of $3.4 million for future estimated costs of remediation of the site, net of salvage value, based on the uncertainty of creating an alternative to the refinery being dismantled, remediated and sold for salvage values.

During 2006 the Fund entered into a custom processing agreement to toll produce fluids used in the oilfield. The commercial agreement is multi year and utilizes a portion of the processing units at the refinery. The Fund is continuing to pursue other economically viable uses for the remaining processing units at the refinery and therefore any decision to dismantle, remediate and sell the refinery site has been deferred indefinitely. The obligations relating to future environmental remediation, however, continue to exist.

Assuming the Fund continues operations at the refinery, remediation for any potential environmental liabilities associated with a complete dismantling of the site would be delayed indefinitely. The Fund has estimated the cost of remediation on the basis that the refinery will become fully operational and that remediation would be part of a multi-year management plan. Remediation costs have been estimated by taking into account an extended time frame for remediation, the likely escalation of future costs of goods and services offset by the time value discount inherent in a deferred time frame and technology developments available to assist in remediation.

4. ASSET RETIREMENT OBLIGATIONS

A reconciliation of the Fund's estimated liability for the removal of its underground storage tanks is as follows:

	2006	2005
Asset retirement obligations, beginning of year	**$ 1,120**	$ 1,043
Additions during the year	**–**	17
Expenditures during the year	**(40)**	–
Accretion expense	**60**	60
Asset retirement obligations, end of year	**$ 1,140**	$ 1,120

On an undiscounted basis, the estimated liability is $1.5 million (2005 – $1.5 million) with costs expected to be incurred between 2007 and 2019. The discount rate is 6.9 percent (2005 – 6.9 percent).

5. LONG-TERM DEBT

	2006	2005
Bank loans secured by an assignment of accounts receivable, inventories and demand debentures creating a first fixed charge over specific fixed assets and a floating charge upon all other assets. The loans are repayable in monthly instalments of $103,768 including interest at prime plus 0.35 percent. The effective interest rate at year end was 6.35 percent (2005 – 5.35 percent). The loans were paid in full in January 2007.	**$ 4,029**	$ 5,448
Mortgages payable in monthly instalments totaling $122,346 including interest. Interest rates vary from 5.15 percent to 8.5 percent and prime plus 0.7 percent to prime plus 0.8 percent per annum. The effective rates of interest at year end for the prime based loans were 6.7 percent to 6.8 percent (2005 – 5.7 percent to 5.8 percent). The mortgages are secured by real properties with a net book value of $8,907,000 and mature at various dates ending May 7, 2009. Mortgages totaling $2.8 million were paid in full January 2007.	**3,238**	4,462
Capital leases payable in monthly instalments totaling $188,114 including interest varying from 4.54 percent to 16.34 percent and prime plus 0.35 percent per annum. The effective rate of interest at year end for the prime based lease was 6.35 percent (2005 – 5.35 percent). The leases are for land, buildings and equipment with a net book value of $6,043,988 and mature at various dates ending July 2022. Capital leases totaling $3.1 million were paid in full January 2007.	**4,529**	6,701
	11,796	16,611
Less current portion	**10,145**	6,862
	$ 1,651	$ 9,749

The Fund has outstanding letters of credit totaling $24.7 million (2005 – $25.7 million) which mature at various dates to October 31, 2007.

For 2006 the Fund has available lines of credit of $32.0 million, subject to margin calculations. The outstanding letters of credit are against a part of this facility.

6. UNITHOLDERS' CAPITAL

An unlimited number of Fund Units and LP Units may be created and issued, pursuant to the Fund Declaration of Trust and the Amended and Restated Limited Partnership Agreement, respectively, as outlined in the Plan of Arrangement.

Fund Units represent an undivided interest in the Fund. LP Units represent a partnership interest in Parkland Holdings Limited Partnership and are exchangeable on a one-for-one basis in to Fund Units. Both Fund Unitholders and LP Unitholders are entitled to vote at meetings of the Fund and are entitled to distributions from time to time as determined by the Board of Directors.

	2006 UNITS	2006 DOLLARS	2005 UNITS	2005 DOLLARS
Class B Limited Partnership Units				
Balance, beginning of year	**2,908**	**$ 13,055**	4,307	$ 18,833
Allocation of retained earnings	**–**	**13,581**	–	6,859
Distribution to partners	**–**	**(12,934)**	–	(6,761)
Exchanged for Fund units	**(53)**	**(1,392)**	(1,399)	(5,876)
Balance, end of year	**2,855**	**$ 12,310**	2,908	$ 13,055
Fund Units				
Balance, beginning of year	**9,430**	**$ 45,046**	7,914	$ 36,191
Allocation of retained earnings	**–**	**45,010**	–	18,110
Unit incentive compensation	**–**	**341**	–	181
Issued under distribution reinvestment plan	**21**	**491**	32	661
Issued under unit option plan	**113**	**1,744**	85	1,138
To be issued to unitholders pursuant to special distribution	**389**	**14,963**	–	–
Distribution to unitholders	**–**	**(43,237)**	–	(17,111)
Exchange of Limited Partnership units	**53**	**1,392**	1,399	5,876
Balance, end of year	**10,006**	**$ 65,750**	9,430	$ 45,046
	12,861	**$ 78,060**	12,338	$ 58,101

Unit Option Plan

The Fund has a Unit Option Plan under which the Fund may grant up to 1,200,000 unit options to directors, officers, employees and consultants. The maximum number of options is reduced by the number of units allocated to the Restricted Unit Plan. The unit options have a 10-year term and, with limited exceptions, vest proportionally over the first three anniversary dates following the grant.

The table below represents the status of the Fund's Unit Option Plan as at December 31, 2006 and 2005 and the changes therein for the years then ended:

	2006 NUMBER OF UNIT OPTIONS	2006 WEIGHTED AVERAGE EXERCISE PRICE	2005 NUMBER OF UNIT OPTIONS	2005 WEIGHTED AVERAGE EXERCISE PRICE
Option units, beginning of year	**550**	**$ 18.09**	438	$ 15.26
Granted	**–**	**–**	280	21.38
Cancelled	**(28)**	**21.03**	(83)	19.02
Exercised	**(113)**	**15.54**	(85)	13.45
Option units, end of year	**409**	**$ 18.59**	550	$ 18.09
Exercisable options, end of year	**271**	**$ 16.75**	129	$ 15.28

Exercise prices for outstanding options at December 31, 2006 have the following ranges: 94,300 from $12.45 – $15.71, 115,337 from $17.62 – $18.97 and 199,668 from $20.05 – $21.80. These issue prices represent the market value at the time of issue.

The corresponding remaining contractual life for these options range from 6 - 9 years.

The Fund accounts for its grants of options using the fair value based method of accounting for stock based compensation. The total cost to be reported is $0.5 million (2005 – $0.6 million). The compensation cost that has been included in meeting, general and administrative expenses for 2006 is $0.2 million (2005 – $0.2 million).

The fair value of the options granted is estimated using the Black-Sholes options pricing model on the basis of the following assumptions:

Expected average annual distribution	$1.80
Expected average volatility	20 percent
Weighted average risk-free interest rate	3.25 percent
Expected life	3 years

Restricted Unit Plan

Effective January 1, 2006, the Fund adopted a Restricted Unit Plan to complement the Unit Option Plan. A maximum of 617,028 units was allocated to this Plan. Under the Plan the units granted in 2006 vest over a five-year period and are subject to entity performance criteria.

The table below represents the status of the Fund's Restricted Unit Plan as at December 31, 2006 and the changes therein for the year then ended:

	NUMBER OF UNITS (000s)	WEIGHTED AVERAGE UNIT PRICE ($/UNIT)
Restricted units, beginning of year	–	$ –
Granted	46	19.80
Cancelled	(2)	19.65
Restricted units, end of year	44	$ 19.81

The Fund accounts for its grants of restricted units over the graded vesting schedule of each grant. Each grant of restricted units is treated as if the grant were a series of awards rather than a single award. The fair value of the award is determined based on the different expected lives for the restricted units that vest each year. The total cost to be reported is $0.8 million. The compensation cost that has been included in marketing, general and administrative expenses for 2006 is $0.2 million.

7. INCOME TAXES

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to earnings before provision for income taxes as shown in the following table:

	2006 AMOUNT OF	2006 RATE %	2005 AMOUNT OF	2005 RATE %
Provision for income taxes at statutory rates	**$ 19,353**	**32.49**	$ 9,085	33.62
Add (deduct) the tax effect of :				
Income earned in limited partnership	**(18,560)**	**(31.16)**	(7,697)	(28.48)
Large corporation/capital taxes	**89**	**0.15**	623	2.30
Other	**93**	**0.16**	44	0.16
	$ 975	**1.64**	$ 2,055	7.60

Capital assets and inventory held directly by the Limited Partnership, having carrying values of $54.0 million (2005 – $51.6 million) and $6.3 million (2005 – $5.9 million), have a tax basis of $51.7 million (2005 – $46.7 million) and $9.1 million (2005 – $8.3 million) respectively.

Future income tax assets amounting to $1.4 million (2005 – $1.6 million) relate to the difference in carrying value of the refinery assets to the tax basis. The refinery assets are held by Parkland Refining Ltd., a wholly-owned subsidiary of the Fund, and were written off in 2004.

On December 21, 2006, the Minister of Finance released for comment draft legislation concerning the taxation of certain publicly traded trusts and partnerships. The legislation reflects proposals originally announced by the Minister on October 31, 2006. Under the proposed legislation, certain distributions will not be deductible to publicly-traded income trusts and partnerships with the exception of real estate investment trusts and, as a result, these entities will in effect be taxed as corporations on the amount of the non-deductible distributions. For entities in existence on October 31, 2006, the proposed rules, if passed into law, would not apply until 2011 provided the entities meet certain qualifying conditions. The Fund believes it meets the qualifying conditions.

8. COMMITMENTS

The Fund has contracted obligations under various debt agreements as well as under operating and capital leases for land, building and equipment. Minimum operating lease payments under the existing terms for each of the five succeeding years are as follows:

2007	$ 2,126
2008	$ 1,828
2009	$ 1,046
2010	$ 522
2011	$ 336
Thereafter	$ 782

The Fund also has purchase commitments under its fuel supply contracts that require the purchase of approximately 1.6 billion litres of fuel products at variable costs over the next year.

9. FINANCIAL INSTRUMENTS

The fair value of cash, accounts receivable and accounts payable are equal to their carrying values due to their short-term maturities. The fair value of long-term bank loans equal their carrying values as their interest rates fluctuate with the prime lending rate. The carrying values and fair values of mortgages payable, capital lease obligations and other assets, which consist primarily of mortgages and loans receivable, are as follows:

	2006 CARRYING VALUE	2006 FAIR VALUE	2005 CARRYING VALUE	2005 FAIR VALUE
Mortgages payable	**$ 3,238**	**$ 3,228**	$ 4,462	$ 4,465
Capital lease obligations	**4,529**	**4,575**	6,701	6,735
Mortgages and loans receivable	**1,393**	**1,495**	1,930	1,822

Fair value of mortgages and loans receivable and long-term debt are estimated using discounted cash flow analysis based upon incremental borrowing rates for similar borrowing arrangements.

The Fund does not have a significant credit exposure to any individual customer. The Fund reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.

Mortgages and loans receivable are receivable in monthly instalments of $38,787 (2005 – $31,368), bear interest at rates ranging between nil and 13 percent and are secured by specific assets of the mortgage.

10. NET CHANGES IN NON-CASH WORKING CAPITAL

	2006	2005
Accounts receivable	**$ (6,041)**	$ (12,330)
Inventories	**(1,389)**	(989)
Prepaid expenses and other	**(2,304)**	(48)
Accounts payable	**12,455**	10,863
Income taxes payable	**(679)**	1,138
Subtotal for operating activities	**$ 2,042**	$ (1,366)
Distributions declared and payable	**$ 12,500**	$ 1,833
Other cash flow information		
Cash taxes paid	**$ 1,461**	$ 588
Cash interest paid	**$ 1,044**	$ 873

11. SEGMENTED INFORMATION

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

	FUEL MARKETING	MERCHANDISE	TOTAL
YEAR ENDED DECEMBER 31, 2006			
Net sales and operating revenue	**$ 1,140,242**	**$ 59,624**	**$ 1,199,866**
Cost of sales	**1,018,692**	**44,117**	**1,062,809**
Gross margin	**$ 121,550**	**$ 15,507**	**$ 137,057**
YEAR ENDED DECEMBER 31, 2005			
Net sales and operating revenue	$ 830,569	$ 44,970	$ 875,539
Cost of sales	750,501	33,114	783,615
Gross margin	$ 80,068	$ 11,856	$ 91,924

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

12. SUBSEQUENT EVENTS

Acquisition of Neufeld Petroleum & Propane Ltd. and Neufeld Holdings Ltd.

On January 24, 2007, the Fund closed the acquisition of all the outstanding shares of Neufeld Petroleum & Propane Ltd. and Neufeld Holdings Ltd. ("Neufeld Petroleum"), a leading fuel, propane and agricultural inputs supplier in Western Canada, for consideration of approximately $131 million. The purchase was funded through the issuance of 1,565,694 Class C Limited Partnership units valued at $58.3 million, an equity financing of $50 million, the assumption of debt and from existing cash on hand. The effective date on the transaction was November 1, 2006 and the interim earnings to January 24, 2007 will be credited to the purchase price.

Equity Financing

On January 24, 2007, the Fund and a syndicate of underwriters closed a bought deal equity financing pursuant to which the syndicate sold 1,360,000 units of the Fund for gross proceeds of $50 million ($36.75 per unit). All conditions of the offering were satisfied and the proceeds were released to the Fund.

Long-Term Debt

In January 2007, the Fund paid off $9.9 million of long-term debt from proceeds of the equity financing. On January 26, 2007, $3.0 million of long-term debt was refinanced under similar terms and conditions.

In January 2007, the Fund accepted the terms and conditions of a proposed financing arrangement with HSBC Bank Canada. The proposed financing arrangement will provide for an increase in the Fund's credit facility from $54 million to $128.1 million. The proposed financing arrangement is comprised of $32 million for operating debt, $30 million for letters of credit and the remainder for term debt. The proposed financing will assist in the refinancing of existing debt of Neufeld Petroleum and finance growth opportunities in 2007.

In February 2007, the Fund paid off $19.0 million of working capital debt of Neufeld Petroleum using the Fund's existing cash on hand.

13. RELATED PARTY TRANSACTIONS

The following table summarizes the Fund's related party transactions:

	2006	2005
Fees for legal services, including costs related to an acquisition, by a law firm of which a Director is a partner	**$ 438**	$ 177

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.

Corporate Information

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ANNUAL GENERAL MEETING
Friday, May 4, 2007
2:00 p.m. at the Red Deer Lodge
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Red Deer, Alberta

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President and CEO

John G. Schroeder
Vice President and CFO
Corporate Secretary
Chief Privacy Officer

Chris R. Podolsky
Corporate Controller

Kelly G. Collier
Controller, Retail

Jay S. Chatha
Controller, Wholesale

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

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