## Parkland Fuel Corporation

# Consolidated Balance Sheets
(Unaudited)

| (in 000's of Canadian Dollars) | As at September 30, 2014 | As at December 31, 2013 (revised - see note 2) |
|---|---|---|
| **Assets** | | |
| ***Current Assets*** | | |
| Cash and cash equivalents | **47,635** | 8,986 |
| Restricted cash | **1,833** | 1,833 |
| Accounts receivable (Note 7) | **482,604** | 499,873 |
| Inventories (Note 8) | **138,638** | 128,883 |
| Income tax receivable | **6,231** | 2,940 |
| Risk management (Note 9) | **5,600** | 646 |
| Prepaid expenses and other | **16,058** | 9,752 |
| | **698,599** | 652,913 |
| Property, plant and equipment (Note 10) | **356,188** | 319,344 |
| Intangible assets (Note 11) | **161,821** | 127,011 |
| Goodwill (Note 12) | **178,346** | 132,493 |
| Long-term receivables (Note 13) | **13,189** | 12,081 |
| Other long term assets (Note 9) | **3,940** | - |
| Deferred tax asset | **14,709** | 11,382 |
| | **1,426,792** | 1,255,224 |
| **Liabilities** | | |
| ***Current Liabilities*** | | |
| Bank indebtedness | **4,994** | 2,539 |
| Accounts payable and accrued liabilities | **372,477** | 375,799 |
| Dividends declared and payable | **6,698** | 6,225 |
| Deferred revenue | **2,312** | 7,052 |
| Long-term debt - current portion (Note 14) | **2,001** | 1,354 |
| Convertible debentures - current portion (Note 15) | **77,245** | 83,239 |
| Asset retirement obligations - current portion (Note 16) | **7,943** | 2,995 |
| Risk management (Note 9) | **1,433** | 4,909 |
| Other long-term liabilities - current portion | **2,084** | 2,282 |
| | **477,187** | 486,394 |
| Long-term debt (Note 14) | **306,456** | 222,955 |
| Other long-term liabilities | **11,447** | 11,477 |
| Convertible debentures (Note 15) | **44,124** | 44,168 |
| Asset retirement obligations (Note 16) | **52,807** | 39,653 |
| Refinery and terminal remediation accrual (Note 17) | **13,227** | 11,803 |
| Deferred tax liability | **35,925** | 8,951 |
| | **941,173** | 825,401 |
| **Shareholders' Equity** | | |
| Shareholders' capital (Note 18) | **486,821** | 411,503 |
| Contributed surplus | **5,577** | 5,862 |
| Accumulated other comprehensive loss | **27** | - |
| Retained earnings | **(6,806)** | 12,458 |
| | **485,619** | 429,823 |
| | **1,426,792** | 1,255,224 |

Contingencies and Commitments (Note 25)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

**Parkland Fuel Corporation**

# Consolidated Statements of Income
(Unaudited)

| (in 000's of Canadian Dollars and shares except per share amounts) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Sales and operating revenue | **1,905,846** | 1,509,040 | **5,809,263** | 4,064,561 |
| Cost of sales, excluding depreciation | **1,788,842** | 1,396,280 | **5,404,000** | 3,695,299 |
| Customer finance income | **(499)** | (589) | **(1,995)** | (1,789) |
| Operating costs | **57,323** | 44,129 | **182,696** | 130,004 |
| Marketing, general and administrative | **29,023** | 24,922 | **94,320** | 77,064 |
| Depreciation and amortization | **18,612** | 13,710 | **57,494** | 41,391 |
| Finance costs (Note 19) | **6,295** | 4,791 | **19,258** | 15,028 |
| Foreign exchange (gain) loss (Note 9) | **(1,696)** | 879 | **(2,602)** | (789) |
| (Gain) loss on disposal of property, plant and equipment | **(89)** | 1,217 | **1,088** | 1,617 |
| (Gain) loss on risk management activities (Note 9) | **(7,279)** | (2,490) | **(1,227)** | 11,491 |
| Earnings before income taxes | **15,314** | 26,191 | **56,231** | 95,245 |
| Income tax expense (recovery) | | | | |
| Current | **5,284** | 6,459 | **20,759** | 25,810 |
| Deferred | **(390)** | 671 | **(4,181)** | (485) |
| Net earnings | **10,420** | 19,061 | **39,653** | 69,920 |
| Net earnings per share (Note 6) | | | | |
| - Basic | **0.14** | 0.27 | **0.53** | 1.00 |
| - Diluted | **0.14** | 0.27 | **0.53** | 0.99 |
| Shares outstanding | **76,057** | 71,020 | **76,057** | 71,020 |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

## Parkland Fuel Corporation

# Consolidated Statements of Comprehensive Income
(Unaudited)

| (in 000's of Canadian Dollars and shares except per share amounts) | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Net earnings | **10,420** | 19,061 | **39,653** | 69,920 |
| Other comprehensive (loss) income: | | | | |
| Items that may be reclassified to consolidated statement of income in subsequent periods: | | | | |
| Exchange differences on translation of foreign operations | **4,820** | - | **3,680** | - |
| Net loss on hedge of net investment in foreign operations, net of tax recovery of $663 and $1,152 (2013 - $nil and $nil), respectively (Note 9) | **(4,125)** | - | **(3,653)** | - |
| Income on interest rate swaps due to de-designation of the hedging item, net of tax expense of $nil (2013 - $87) | **-** | - | **-** | 324 |
| Other comprehensive income, net of tax | **695** | - | **27** | 324 |
| Total comprehensive income, net of tax | **11,115** | 19,061 | **39,680** | 70,244 |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

## Parkland Fuel Corporation

# Consolidated Statements of Changes in Equity (Unaudited)

| (in 000's of Canadian Dollars and shares) | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | Shareholders' capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Total | Number of shares |
| **2014** | | | | | | |
| Balance, beginning of period | **464,774** | **5,469** | **2,748** | **(668)** | **472,323** | **74,765** |
| Net earnings for the period | **-** | **-** | **10,420** | **-** | **10,420** | **-** |
| Other comprehensive income, net of tax | **-** | **-** | **-** | **695** | **695** | **-** |
| Issued on capital acquisition, net of issue costs | **-** | **-** | **-** | **-** | **-** | **-** |
| Dividends | **-** | **-** | **(19,974)** | **-** | **(19,974)** | **-** |
| Share incentive compensation | **-** | **473** | **-** | **-** | **473** | **-** |
| Issued under dividend reinvestment plan, net of issue costs | **13,158** | **-** | **-** | **-** | **13,158** | **675** |
| Issued under share option plan | **3,487** | **(365)** | **-** | **-** | **3,122** | **249** |
| Issued upon conversion of debentures | **5,402** | **-** | **-** | **-** | **5,402** | **368** |
| Balance, end of period | **486,821** | **5,577** | **(6,806)** | **27** | **485,619** | **76,057** |
| 2013 | | | | | | |
| Balance, beginning of period (revised - see note 2) | 385,435 | 4,231 | 8,359 | - | 398,025 | 70,227 |
| Net earnings for the period | - | - | 19,061 | - | 19,061 | - |
| Other comprehensive loss, net of tax | - | - | - | - | - | - |
| Dividends | - | - | (18,396) | - | (18,396) | - |
| Share incentive compensation | - | 825 | - | - | 825 | - |
| Issued under dividend reinvestment plan, net of issue costs | 12,570 | - | - | - | 12,570 | 783 |
| Issued under share option plan | 54 | (3) | - | - | 51 | 4 |
| Issued upon conversion of debentures | 90 | - | - | - | 90 | 6 |
| Balance, end of period | 398,149 | 5,053 | 9,024 | - | 412,226 | 71,020 |

| (in 000's of Canadian Dollars and shares) | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | Shareholders' capital | Contributed Surplus | Retained Earnings (Deficit) | Accumulated Other Comprehensive Loss | Total | Number of shares |
| **2014** | | | | | | |
| Balance, beginning of period (revised - see note 2) | **411,503** | **5,862** | **12,458** | **-** | **429,823** | **71,795** |
| Net earnings for the period | **-** | **-** | **39,653** | **-** | **39,653** | **-** |
| Other comprehensive income, net of tax | **-** | **-** | **-** | **27** | **27** | **-** |
| Issued on capital acquisition, net of issue costs | **21,484** | **-** | **-** | **-** | **21,484** | **1,163** |
| Dividends | **-** | **-** | **(58,917)** | **-** | **(58,917)** | **-** |
| Share incentive compensation | **-** | **2,832** | **-** | **-** | **2,832** | **-** |
| Issued under dividend reinvestment plan, net of issue costs | **40,053** | **-** | **-** | **-** | **40,053** | **2,096** |
| Issued under share option plan | **4,779** | **(476)** | **-** | **-** | **4,303** | **333** |
| Issued on vesting of restricted shares | **1,235** | **(2,641)** | **-** | **-** | **(1,406)** | **142** |
| Issued upon conversion of debentures | **7,767** | **-** | **-** | **-** | **7,767** | **528** |
| Balance, end of period | **486,821** | **5,577** | **(6,806)** | **27** | **485,619** | **76,057** |
| 2013 | | | | | | |
| Balance, beginning of period (revised - see note 2) | 349,591 | 2,964 | (6,598) | (324) | 345,633 | 67,973 |
| Net earnings for the period | - | - | 69,920 | - | 69,920 | - |
| Other comprehensive income, net of tax | - | - | - | 324 | 324 | - |
| Dividends | - | - | (54,298) | - | (54,298) | - |
| Share incentive compensation | - | 2,525 | - | - | 2,525 | - |
| Issued under dividend reinvestment plan, net of issue costs | 36,824 | - | - | - | 36,824 | 2,205 |
| Issued under share option plan | 287 | (11) | - | - | 276 | 36 |
| Issued on vesting of restricted shares | - | (425) | - | - | (425) | 22 |
| Issued upon conversion of debentures | 11,447 | - | - | - | 11,447 | 784 |
| Balance, end of period | 398,149 | 5,053 | 9,024 | - | 412,226 | 71,020 |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

## Parkland Fuel Corporation

# Consolidated Statements of Cash Flows
(Unaudited)

| (in 000's of Canadian Dollars) | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| ***Cash flows from operating activities*** | | | | |
| Net earnings | **10,420** | 19,061 | **39,653** | 69,920 |
| Adjustments for: | | | | |
| Depreciation and amortization | **18,612** | 13,710 | **57,494** | 41,391 |
| Loss on disposal of property, plant and equipment | **(89)** | 1,217 | **1,088** | 1,617 |
| Share incentive compensation | **645** | 994 | **3,816** | 3,449 |
| Refinery and terminal remediation accrual | **128** | 136 | **369** | 408 |
| Accretion expense on asset retirement obligation | **517** | 89 | **1,497** | 239 |
| Change in risk management activities | **(7,053)** | (9,611) | **(8,430)** | 1,367 |
| Change in other long-term liabilities | **(1,479)** | - | **(241)** | 2,385 |
| Accretion on convertible debentures | **583** | 580 | **1,729** | 1,727 |
| Amortization of deferred financing costs and debt premium | **263** | 366 | **1,183** | 1,019 |
| Change in fair value of Redemption Option (Note 9) | **(800)** | - | **(720)** | - |
| Deferred taxes | **(390)** | 671 | **(4,181)** | (485) |
| Cash expenditures on asset retirement obligation | **(20)** | (522) | **(602)** | (1,105) |
| Net changes in non-cash working capital (Note 22) | **30,794** | (65,831) | **18,910** | 19,362 |
| Cash generated from (used in) operating activities | **52,131** | (39,140) | **111,565** | 141,294 |
| ***Financing Activities*** | | | | |
| Long-term debt repayments | **(320)** | (123,137) | **(483,339)** | (396,812) |
| Proceeds from long-term debt | **373** | 173,000 | **550,602** | 410,629 |
| Dividends to shareholders, net of dividend reinvestment plan | **(6,718)** | (5,553) | **(18,389)** | (16,887) |
| Shares issued for cash | **3,123** | 57 | **4,303** | 282 |
| Cash (used in) generated from financing activities | **(3,542)** | 44,367 | **53,177** | (2,788) |
| ***Investing Activities*** | | | | |
| Acquisition of SPF Energy Inc., net of cash and bank indebtedness assumed (Note 21) | **-** | - | **(84,528)** | - |
| Acquisition of Chevron-branded service stations (Note 21) | **-** | - | **(16,446)** | - |
| Acquisition of Elbow River Marketing, net of bank indebtedness assumed | **-** | - | **-** | (84,594) |
| Acquisition of Sparling's Propane | **-** | - | **-** | (32,388) |
| Acquisition of TransMontaigne | **-** | - | **-** | (11,065) |
| Acquisition of Scotsburn and R-Gas | **-** | - | **-** | (2,390) |
| Increase in long-term receivables | **(602)** | (1,188) | **(1,047)** | (2,407) |
| Additions of property, plant and equipment and intangible assets | **(13,119)** | (9,918) | **(27,819)** | (26,256) |
| Proceeds on sale of property, plant and equipment and intangible assets | **503** | 1,287 | **1,165** | 2,734 |
| Cash used in investing activities | **(13,218)** | (9,819) | **(128,675)** | (156,366) |
| Increase (decrease) in cash | **35,371** | (4,592) | **36,067** | (17,860) |
| Net foreign exchange difference | **427** | - | **127** | - |
| Cash, beginning of period | **8,676** | 1,408 | **8,280** | 14,676 |
| Cash, end of period | **44,474** | (3,184) | **44,474** | (3,184) |
| ***Represented by:*** | | | | |
| Cash and cash equivalents | **47,635** | 6,463 | **47,635** | 6,463 |
| Restricted cash | **1,833** | - | **1,833** | - |
| Bank indebtedness | **(4,994)** | (9,647) | **(4,994)** | (9,647) |
| Total cash | **44,474** | (3,184) | **44,474** | (3,184) |
| ***Supplementary Cash Flow Information:*** | | | | |
| Interest paid | **(5,604)** | (1,884) | **(13,337)** | (10,063) |
| Interest received | **499** | 589 | **1,995** | 1,789 |
| Income taxes received (paid) | **687** | (11,118) | **(23,877)** | (47,248) |

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

## 1. REPORTING ENTITY AND DESCRIPTION OF THE BUSINESS

Parkland Fuel Corporation and its wholly owned subsidiaries (collectively the "Corporation" or "Parkland") is a Canadian independent marketer and distributor of crude oil, refined fuels and other related products, managing a nationwide network of sales channels for retail, commercial, wholesale and home heating fuel customers. The consolidated financial statements include the accounts of Parkland Fuel Corporation and its wholly-owned subsidiaries. As of September 30, 2014, Parkland had the following wholly-owned subsidiaries: Parkland Industries Ltd., Bluewave Energy Ltd., Cango Inc., Neufeld Petroleum & Propane Ltd., Parkland Refining Ltd., Columbia Fuels Ltd., United Petroleum Products Inc., 1472490 Alberta Ltd., Elbow River Marketing Ltd., Elbow River Marketing USA Ltd., 2362917 Ontario Inc., Sparling's Propane Co. Ltd., Sparling's Propane Inc., 1714141 Alberta Ltd., Parkland (U.S.) Holding Corp., Parkland (U.S.) Acquisition Corp., Parkland (U.S.) Financing Corp., SPF Energy Inc., Farstad Oil Inc. and Superpumper Inc.

Parkland Fuel Corporation was incorporated under the laws of the Province of Alberta on March 9, 2010 and has its corporate head office at Suite 236, Riverside Office Plaza, 4919 59th Street, Red Deer, Alberta, T4N 6C9.

## 2. CORRECTION OF PRIOR PERIOD ERROR

In the second quarter of 2014, a comprehensive and disciplined review of fuel tax transactions dated from 2010 onwards was completed by Parkland. This review was required to complete provincial fuel tax reporting. Upon the completion of the fuel tax transactions review, a shortfall of $9,600 from the reviewed fuel tax transactions receivable to the recorded fuel tax receivable was identified. As a result of the review conducted on transactions, Parkland has concluded the shortfall from the reviewed fuel tax transactions dates prior to January 1, 2012. Parkland has concluded this error is not material to any individual prior year financial statements. In each of the consolidated balance sheets as at December 31, 2012, March 31, 2013, December 31, 2013 and March 31, 2014 the correction of this error resulted in a decrease in retained earnings of $7,100, a decrease in accounts receivable of $9,600 and an increase in income tax receivable of $2,500. This error has been corrected and revised retroactively in these condensed interim consolidated financial statements.

In the three months ended June 30, 2013 Parkland expensed $3,574 (six months ended June 30, 2013 - $3,574) relating to the fuel tax receivable. Parkland has determined that the cause of this expense is of a similar nature to the shortfall described above. For the annual periods of 2012 and 2013, $4,500 and $6,074, respectively, were recorded as expenses. These comparative amounts, individually or in aggregate, were not considered significant enough in the overall context of the quarterly and annual financial statements for these periods to warrant adjustment to prior periods and therefore have not been retrospectively adjusted in the prior periods.

## 3. BASIS OF PREPARATION

### (a) General Information

These consolidated financial statements were approved for issue by the Board of Directors on November 6, 2014.

### (b) Statement of Compliance

These unaudited condensed interim consolidated financial statements are prepared and reported in Canadian dollars in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The CICA Handbook incorporates International Financial Reporting Standards ("IFRS") and publically accountable enterprises, like the Corporation, are required to apply such standards. These unaudited interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and the accounting policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS effective on September 30, 2014.

These unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. This unaudited condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2013 which have been prepared in accordance with IFRS.

### (c) Use of Estimates

The preparation of the unaudited condensed interim consolidated 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 appropriate for accounting purposes. These estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

Estimates are used when accounting for items such as amortization of property, plant and equipment, asset retirement obligations, the refinery and terminal remediation accrual, value in use calculations for impairment, intangible assets and goodwill, impairment and valuation allowances for accounts receivable and inventory, contingent liabilities including matters in litigation, fair value of financial instruments, amortization and income taxes, grants of options and restricted share units, and calculation of fair values for the debentures.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Parkland's key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2013.

**(d) Foreign Currency Translation – operation and consolidation**

Effective January 1, 2014, Parkland adopted the additional accounting policy related to the foreign currency translation. Prior to the acquisition of SPF Energy Inc., Parkland's subsidiaries' functional currency was exclusively Canadian dollars.

The Corporation's subsidiaries' functional currencies are either Canadian dollar or United States dollar. Each subsidiary determines its functional currency based on the currency of the primary economic environment in which it operates.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at the average exchange rates applicable for the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

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

## 4. CHANGE IN ACCOUNTING POLICY

Except as described below, the accounting policies adopted by Parkland in these unaudited condensed interim consolidated financial statements are the same as those applied by Parkland in its audited consolidated financial statements for the year ended December 31, 2013. Parkland had adopted the following new standards (a) to (e) effective January 1, 2014 and (f) effective July 1, 2014. These changes were made in accordance with the applicable transitional provisions.

**(a) Amendments to IAS 32 – *Financial Instruments: Presentation* ("IAS 32") – Offsetting Financial Assets and Financial Liabilities**

Effective January 1, 2014, Parkland adopted retrospectively the amendment to IAS 32. The amendment provides clarification for offsetting financial assets and financial liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on the future events. The adoption of this amendment has no impact on Parkland.

**(b) Amendments to IAS 36 – *Impairment of Assets* ("IAS 36") – Recoverable Amount Disclosures for Non-Financial Assets**

Effective January 1, 2014, Parkland adopted retrospectively the amendment to IAS 36. These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period. The adoption of this amendment has no impact on Parkland.

**(c) IFRIC 21 – *Levies* ("IFRIC 21")**

Effective January 1, 2014, Parkland adopted retrospectively IFRIC 21. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 – *Income Taxes*) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. The adoption of IFRIC 21 has no impact on Parkland.

**(d) Amendments to IAS 39 – *Financial Instrument: Recognition and Measurement* ("IAS 39") – Novation of Derivatives and Continuation of Hedge Accounting**

Effective January 1, 2014, Parkland adopted retrospectively the amendment to IAS 39. The amendment relates to hedge accounting and novation of derivatives. It provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedge instrument meets certain criteria. The adoption of this standard has no impact on Parkland.

**(e) Amendments to IFRS 10 – Consolidated Financial Statements ("IFRS 10"), IFRS 12 – Disclosure of interests in other entities ("IFRS 12"), and IAS 27 – Separate Financial Statements ("IAS 27") – Investment Entities**

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 – *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on Parkland.

**(f) Amendments to IFRS 3 – *Business Combinations* ("IFRS 3") – Accounting for contingent consideration in a business combination**

The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity. In addition, the standard clarifies that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. This amendment has no impact on Parkland.

Parkland has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 5. RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS

The Corporation is in the process of evaluating the impact of the following new requirements:

**(a) IFRS 9 – *Financial Instruments* ("IFRS 9")**

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

**(b) IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")**

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers and applies to annual reporting periods beginning on or after January 1, 2017. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and early adoption is permitted. Parkland has not yet determined the impact of this standard on the Corporation's consolidated financial statements and has not decided whether to early adopt this standard.

**(c) Amendments to IFRS 13 – *Fair value measurements* ("IFRS 13") – Short-term receivables and payables**

The IASB clarified in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is applicable for annual periods beginning on or after July 1, 2014. This amendment has no impact on Parkland.

**(d) Amendments to IFRS 8 – *Operating Segments* ("IFRS 8") – Aggregation of operating segments and reconciliation of total of the reportable segments' assets to the entity's assets**

Amendments to IFRS 8 requires 1) disclosure of the economic characteristics used to assess whether the segments are similar, where operating segments are combined or aggregated, and 2) disclosure of reconciliation of segment assets to total assets of the reconciliation is reported to the chief operating decision maker. The amendment is applicable for annual periods beginning on or after July 1, 2014.

**(e) Amendments to IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28")**

These amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after 1 January 2016.

**(f) Annual Improvements to IFRSs 2012 – 2014 Cycle: Amendments to IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5"), IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7"), IAS 19 – *Employee Benefits* ("IAS 19") and IAS 34 – *Interim Financial Reporting* ("IAS 34")**

The Annual Improvements to IFRSs 2012 – 2014 Cycle are a series of amendments to IFRSs in response to issues raised during the 2012 to 2014 cycle for annual improvements. The amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 have an effective date of January 1, 2016.

Based on Parkland's preliminary assessment, items (d) to (f) are not expected to have a significant effect on the consolidated financial statements of the Corporation.

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

## 6. EARNINGS ANALYSIS AND NET EARNINGS PER SHARE

| | Three months ended September 30, | |
|---|---|---|
| | **2014** | 2013 |
| Net earnings, basic | **10,420** | 19,061 |
| Interest and accretion on convertible debentures, net of tax | **1,861** | 2,562 |
| Net earnings, diluted | **12,281** | 21,623 |
| | | |
| Net earnings per share | | |
| - Basic | **0.14** | 0.27 |
| - Diluted | **0.14** | 0.27 |
| | | |
| Equivalent shares outstanding, beginning of year | **74,765** | 70,227 |
| Weighted average of equivalent shares issued pursuant to: | | |
| - Dividend reinvestment plan | **441** | 517 |
| - Exercise of share options | **85** | 4 |
| - Conversion of convertible debentures | **166** | 4 |
| Denominator utilized in basic earnings per share | **75,457** | 70,752 |
| Incremental equivalent share options that were dilutive | **232** | 149 |
| Incremental equivalent shares for debentures that were dilutive | **7,792** | 8,560 |
| Denominator utilized in diluted earnings per share | **83,481** | 79,461 |

| | Nine months ended September 30, | |
|---|---|---|
| | **2014** | 2013 |
| Net earnings, basic | **39,653** | 69,920 |
| Interest and accretion on convertible debentures, net of tax | **5,630** | 7,695 |
| Net earnings, diluted | **45,283** | 77,615 |
| | | |
| Net earnings per share | | |
| - Basic | **0.53** | 1.00 |
| - Diluted | **0.53** | 0.99 |
| | | |
| Equivalent shares outstanding, beginning of year | **71,795** | 67,973 |
| Weighted average of common shares issued | **1,129** | - |
| Weighted average of equivalent shares issued pursuant to: | | |
| - Restricted share unit plan | **80** | 22 |
| - Dividend reinvestment plan | **1,192** | 1,190 |
| - Exercise of share options | **71** | 20 |
| - Conversion of convertible debentures | **157** | 700 |
| Denominator utilized in basic earnings per share | **74,424** | 69,905 |
| Incremental equivalent share options that were dilutive | **224** | 153 |
| Incremental equivalent shares for debentures that were dilutive | **7,792** | 8,560 |
| Denominator utilized in diluted earnings per share | **82,440** | 78,618 |

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

## 7. ACCOUNTS RECEIVABLE

| | **September 30, 2014** | December 31, 2013 (revised - see note 2) |
|---|---|---|
| Trade accounts receivable | **383,897** | 409,124 |
| Miscellaneous, government and other non-trade accounts receivable | **111,364** | 102,912 |
| Allowance for doubtful accounts | **(12,657)** | (12,163) |
| | **482,604** | 499,873 |

The allowance for doubtful accounts is provisions on trade accounts receivable. Trade accounts receivable, net of the allowance for doubtful accounts is $371,240 (December 31, 2013 – $396,961). Miscellaneous, government and other non-trade accounts receivable are reported net of allowances for doubtful accounts.

## 8. INVENTORIES

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Gas and diesel | **52,860** | 68,107 |
| Lubricants | **29,586** | 18,984 |
| Crude oil | **14,424** | 10,347 |
| Agricultural inputs | **5,425** | 5,047 |
| Natural gas and NGL MX | **3,624** | 1,212 |
| Propane and Butane | **28,816** | 23,187 |
| Other | **3,903** | 1,999 |
| | **138,638** | 128,883 |

For the three and nine month period ended September 30, 2014, the amount of inventory recognized as cost of goods sold amounted to $1,788,842 and $5,404,000 respectively ($1,396,280 and $3,695,299 for the three and nine month period ended September 30, 2013, respectively).

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

Parkland periodically enters into derivative contracts which are believed to be economically effective at managing exposure to movements in commodity prices, US dollar exchange rates and market interest rates. While these derivative contracts form a component of the Corporation's overall risk management program, they are not accounted for as hedges under IFRS because they have not been documented as such, or do not qualify under IFRS. In addition, Parkland's Senior Unsecured Notes (Note 14) contain a redemption option which has been accounted for as an embedded derivative financial instrument under IFRS (the "Redemption Option"). Parkland's financial assets and liabilities that are measured at fair value in the consolidated balance sheets are categorized by level according to the significance of the inputs used in making the measurements. The fair value measurement hierarchy levels are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

Parkland's recurring measurements of the put and call option contracts, commodities forward contracts, future contracts, US dollar forward exchange contracts, interest rate swaps and Redemption Option were at fair value based on Level 2 inputs.

Parkland used the following techniques to value financial instruments categorized in Level 2:

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

The fair value of the outstanding NYMEX New York harbour WTI to heating oil, gasoline and refined products put and call option contracts, commodities forward contracts, future contracts, US dollar forward exchange contracts, interest rate swaps and Redemption Option are reflected on the consolidated balance sheets with the changes in fair value during the period recorded in the consolidated statements of income within loss on risk management activities and finance costs.

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

## Risk management positions

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Risk management assets | | |
| Call option contracts | **-** | 61 |
| Commodities forward contracts | **5,600** | 281 |
| Future contracts | **-** | 304 |
| Total risk management assets | **5,600** | 646 |
| | | |
| Risk management liabilities | | |
| Commodities forward contracts | **(144)** | (4,073) |
| Future contracts | **(1,121)** | - |
| US dollar forward exchange contract | **(168)** | (488) |
| Interest rate swap | **-** | (348) |
| Total risk management liabilities | **(1,433)** | (4,909) |
| | | |
| Net fair value of risk management | **4,167** | (4,263) |

## Reconciliation of net risk management positions

| **January 1, 2014 to September 30, 2014** | **Interest rate swap (1)** | **Put option contracts** | **Call option contracts** | **Commodities forward contracts** | **US dollar forward exchange contracts** | **Future contracts** | **Total net asset (liability)** |
|---|---|---|---|---|---|---|---|
| Total fair value, beginning of period | **(348)** | **-** | **61** | **(3,792)** | **(488)** | **304** | **(4,263)** |
| Additions | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Change in fair value - unrealized gain (loss) | **-** | **-** | **-** | **9,248** | **320** | **(1,425)** | **8,143** |
| Change in fair value - realized gain (loss) | **348** | **-** | **11** | **(5,709)** | **(1,289)** | **72** | **(6,567)** |
| Value (received) paid upon exercising | **-** | **-** | **(72)** | **5,709** | **1,289** | **(72)** | **6,854** |
| Total fair value, end of period | **-** | **-** | **-** | **5,456** | **(168)** | **(1,121)** | **4,167** |

(1) Adjustments to the fair value of the interest rate swap are also included in finance costs

| **January 1, 2013 to December 31, 2013** | **Interest rate swap (1)** | **Put option contracts** | **Call option contracts** | **Commodities forward contracts** | **US dollar forward exchange contracts** | **Future contracts** | **Total net asset (liability)** |
|---|---|---|---|---|---|---|---|
| Total fair value, beginning of year | (929) | 2,015 | - | - | - | - | 1,086 |
| Additions | - | - | 88 | (5,436) | 151 | - | (5,197) |
| Change in fair value - unrealized gain (loss) | 581 | - | (27) | 1,644 | (639) | 304 | 1,863 |
| Change in fair value - realized gain (loss) | - | (17) | - | (20,921) | (709) | 97 | (21,550) |
| Value (received) paid upon exercising | - | (1,998) | - | 20,921 | 709 | (97) | 19,535 |
| Total fair value, end of year | (348) | - | 61 | (3,792) | (488) | 304 | (4,263) |

(1) Adjustments to the fair value of the interest rate swap are also included in finance costs

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

**Offsetting risk management positions**

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

| | **September 30, 2014** | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **Asset** | **Liability** | **Net** | Asset | Liability | Net |
| Recognized risk management positions: | | | | | | |
| Gross amount | **7,533** | **3,366** | **4,167** | 5,744 | 10,007 | (4,263) |
| Amount offset | **(1,933)** | **(1,933)** | **-** | (5,098) | (5,098) | - |
| Total risk management | **5,600** | **1,433** | **4,167** | 646 | 4,909 | (4,263) |

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

As at September 30, 2014 Parkland had commodities forward contracts (relating to the sale of butane, propane, natural gasoline, crude oil and ethanol), future contracts, call option contracts and US dollar forward exchange contracts outstanding. Details of the fair value of these financial instruments are as follows:

## Risk management contracts outstanding

**Commodities forward contracts**

| Settlement dates | Average Monthly Volume (bbl) | Price $/(bbl) | **Fair value** |
|---|---|---|---|
| Crude and Heavy Oil | | | |
| October - December 2014 | 15,780 | 89.76 - 96.70 | **4,203** |
| | | | **4,203** |
| Liquid Petroleum Gases | | | |
| October - December 2014 | 93,864 | 44.21 - 98.15 | **(94)** |
| January - March 2015 | 33,072 | 43.13 - 98.15 | **(68)** |
| | | | **(162)** |
| Refined Fuels | | | |
| October - December 2014 | 85,037 | 64.86 - 108.26 | **1,610** |
| January - March 2015 | 16,420 | 64.31 - 113.30 | **(44)** |
| April - June 2015 | 16,420 | 65.49 - 113.30 | **(151)** |
| | | | **1,415** |
| Total fair value of commodities forward contracts | | | **5,456** |

**Future contracts**

| Settlement dates | Average Monthly Volume (bbl) | Price $/(bbl) | **Fair value** |
|---|---|---|---|
| Crude and Heavy Oil | | | |
| October - December 2014 | 4,333 | 111.58 - 120.60 | **(130)** |
| January - March 2015 | 30,000 | 88.68 - 120.99 | **(680)** |
| April - June 2015 | 15,667 | 88.03 - 120.09 | **(311)** |
| Total fair value of future contracts | | | **(1,121)** |

**US dollar forward exchange contracts**

| Settlement dates | Amount (USD) | Forward rates (CAD) | **Fair value** |
|---|---|---|---|
| October - December 2014 | 24,425 | 1.0384 - 1.1246 | **(226)** |
| April - June 2014 | 10,360 | 1.0789 - 1.1266 | **(41)** |
| April - June 2015 | 2,186 | 1.0807 - 1.1121 | **30** |
| July - September 2015 | 1,404 | 1.1126 - 1.1136 | **27** |
| October - December 2015 | 1,404 | 1.1141 - 1.1151 | **31** |
| January - March 2016 | 468 | 1.1156 - 1.1156 | **11** |
| Total fair value of US dollar forward exchange contracts | 40,247 | | **(168)** |
| | | | |
| **Net fair value of risk management as at September 30, 2014** | | | **4,167** |

**Redemption Option**

The Corporation has a Redemption Option to redeem the Senior Unsecured Notes (Note 14) prior to maturity at a premium. On initial recognition, the Redemption Option was ascribed a fair value of $3,220, which is recorded within other long-term assets in the consolidated balance sheet. On initial recognition, the carrying value of the Senior Unsecured Notes was increased by the fair value of the Redemption Option, which is amortized over the term of the Senior Unsecured Notes. The Redemption Option is fair valued at the end of the reporting date and any change in the fair value is recognized in the consolidated statements of income in finance costs.

The fair value of the Redemption Option was $3,940 as at September 30, 2014 (December 31, 2013 – $nil). The change in fair value of the Redemption Option for the three and nine months ended September 30, 2014 was a gain of $800 and $720 respectively (three and nine months ended September 30, 2013 – $nil and $nil).

**Fair value measurement hierarchy transfers**

The Corporation's policy is to recognize transfers between fair value measurement hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels in the year.

**Other financial instruments**

Financial instruments that are not measured at fair value on the balance sheet are cash and cash equivalents, restricted cash, accounts receivable, long-term receivables, bank indebtedness, accounts payable and accrued liabilities, dividends declared and payable, long-term debt and convertible debentures. The fair value of cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness, account payable and accrued liabilities and dividends declared and payable approximate their carrying values as at September 30, 2014 due to the short term nature of these instruments. The carrying value of the long-term debt approximates fair value as at September 30, 2014 as either the interest rate on the long-term debt is adjusted monthly or debt was issued recently. The carrying value of the long-term receivables approximates fair value as at September 30, 2014, as Parkland currently issues loans and advances to dealers and customers with similar terms. The convertible debentures had a carrying value of $121,369 as at September 30, 2014 (December 31, 2013 – $127,407) and a fair value of $119,710 as at September 30, 2014 (December 31, 2013 – $130,450).

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

## BUSINESS RISKS

### Credit Risk

A substantial portion of Parkland's trade accounts receivable and long-term receivable balances are with customers in the oil and gas, mining and forestry industries and is subject to normal industry credit risks. The credit risk is minimized by Parkland's broad customer and geographic base. Parkland manages its exposure to credit risk through rigorous credit granting procedures, typically short payment terms and security interests where applicable. Parkland attempts to closely monitor the financial conditions of its customers and the industries in which they operate. Parkland performs ongoing credit evaluations of its customers and outstanding debts are regularly monitored and when deemed uncollectible a provision is established. At September 30, 2014, the provision for impairment of credit losses on trade accounts receivable was $12,657 (December 31, 2013 – $12,163). No provision has been made for long-term receivables.

Parkland does not have a significant credit exposure to any individual customer. Parkland reviews each new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The maximum exposure to credit risk at the reporting date is the carrying value of Parkland's accounts receivable balance. Parkland mitigates credit risk for certain customers through the use of standby and commercial letters of credit.

The following table details the aging of trade accounts receivable, net of allowance for doubtful accounts and accounts payable and accrued liabilities:

| **As at September 30, 2014** | **Current or within terms** | **31 - 60 days past terms** | **61 - 90 days past terms** | **Over 90 days past terms** | **Total** |
|---|---|---|---|---|---|
| Trade accounts receivable, net of allowance for doubtful accounts | **346,832** | **4,884** | **2,581** | **16,943** | **371,240** |
| Accounts payable and accrued liabilities | **371,974** | **436** | **46** | **21** | **372,477** |

| As at December 31, 2013 | Current or within terms | 31 - 60 days past terms | 61 - 90 days past terms | Over 90 days past terms | Total |
|---|---|---|---|---|---|
| Trade accounts receivable, net of allowance for doubtful accounts | 373,733 | 10,363 | 3,847 | 9,018 | 396,961 |
| Accounts payable and accrued liabilities | 372,235 | 330 | 203 | 3,031 | 375,799 |

### Commodity Price Risk

Parkland is exposed to commodity price risk. The Corporation enters into derivative instruments from time to time to mitigate commodity price risk volatility. These financial instruments are subject to financial controls, risk management and monitoring procedures. The Corporation does not use derivative contracts for speculative purposes. As at September 30, 2014, a 5% change in commodity forward contract pricing, with other variables held constant, would cause an increase or decrease to net earnings of approximately $138 (September 30, 2013 – $7,772).

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

**Interest Rate Risk**

Parkland is exposed to market risk from changes in the Canadian prime interest rate, Bankers' Acceptance rate and LIBOR rate which can impact its borrowing costs. Parkland analyzes the interest rate risk on a regular basis and mitigates that risk by considering refinancing, renewal of existing credit line, hedging options and issuing long-term debt at the fixed rate. A 1% change in these interest rates, with all other variables assumed constant, would have caused an increase or decrease to consolidated net earnings for the three and nine month period ended September 30, 2014 of $20 and $390 respectively ($207 and $501 for the three and nine month period ended September 30, 2013, respectively).

On March 15, 2012, Parkland entered into interest rate swaps covering $150,000 of borrowings under its Credit Facility (see Note 14). The swaps required Parkland to pay a fixed interest rate of 1.69% plus 2.0%. The interest rate swaps expired on June 30, 2014. On May 29, 2014, the Corporation completed a private placement of Senior Unsecured Notes with the aggregate principle amount of $200,000 (Note 14) at the fixed rate of 5.5% per annum.

Effective January 1, 2013, Parkland discontinued the cash flow hedge accounting of the interest rate swaps due to its ineffectiveness. As a result, the loss on this hedge derivative was reclassified to net earnings under financing costs from accumulated other comprehensive income and subsequent changes in fair value were recognized in financing costs.

**US Dollar Currency Rate Risk**

Parkland's foreign exchange risk exposure is from fluctuation in the US dollar relative to the Canadian dollar, relating to the Corporation's operating activities (including purchasing and selling certain products in US dollars) and the Corporation's net investments in foreign subsidiaries. The Corporation's risk exposure from its net investing in foreign subsidiaries is substantially mitigated through net investment hedges. The following table demonstrates the sensitivity to a $0.01 change in US dollar to Canadian dollar exchange rates as at September 30, 2014 and September 30, 2013 on financial instruments that are denominated in a foreign currency, with all other variables held constant. The impact on the Corporation's net earnings that arises on financial instruments denominated in a foreign currency is due to changes in the fair value of monetary assets and liabilities, including the fair value of US dollar forward exchange contracts outstanding. The impact on the Corporation's other comprehensive income, net of tax that arises on financial instruments denominated in a foreign currency is due to changes in the net investment hedge.

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| $0.01 increase in USD-CAD exchange rate: | | | | |
| - Effect on net earnings | **326** | 270 | **326** | 270 |
| - Effect on other comprehensive income, net of tax | **(784)** | - | **(784)** | - |

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

**Hedge of net investments in foreign operations**

The foreign exchange gains and losses on long-term debt are mainly unrealized and can only be realized when US dollar denominated long-term debt matures or is settled. The Corporation also has long-term foreign exchange exposure on its investment in US subsidiaries. Specifically, the Corporation's net investment in SPF Energy Inc., whose functional currency is US dollars, presents a foreign exchange risk to the Corporation, whose functional currency is Canadian dollars. Parkland is using a net investment hedge to mitigate this risk. The Corporation has designated US$91,500 borrowings under the revolving operating loan of the Credit Facility as a hedge of the first US$91,500 of net investment in SPF Energy Inc. This designation has the effect of mitigating volatility on other comprehensive income by offsetting long-term foreign exchange gains and losses on US dollar denominated long-term debt and gains and losses on the US dollar investment in SPF Energy Inc.

Foreign currency translation of the net earnings of SPF Energy Inc. will impact consolidated net earnings. Foreign currency translation of the Corporation's investment in SPF Energy Inc. will impact other comprehensive income. During the three and nine months ended September 30, 2014, the effective portion recognized in other comprehensive income was an unrealized foreign exchange loss, net of tax, of $4,125 and $3,653, respectively, which was used to offset the $4,820 and $3,680 gain, respectively on translation of the net investment in SPF Energy Inc. There was no ineffectiveness during the nine months ended September 30, 2014.

**Foreign Exchange (Gain) Loss**

The following table details the foreign exchange (gain) loss as presented on the consolidated statements of income:

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Unrealized (gain) loss on foreign exchange | **(1,103)** | 597 | **(1,683)** | 159 |
| Realized (gain) loss on foreign exchange | **(593)** | 282 | **(919)** | (948) |
| Foreign exchange (gain) loss | **(1,696)** | 879 | **(2,602)** | (789) |

**Liquidity Risk**

Liquidity risk is the risk that Parkland will encounter difficulties in meeting its short term financial obligations. Cash liquidity of Parkland is mainly provided by cash flows from operating activities and borrowings available under its Credit Facility and Senior Unsecured Notes (see Note 14). In managing liquidity risk, Parkland has access to various credit products at competitive rates. At September 30, 2014, Parkland has available unused credit facilities in the amount of $233,159 (December 31, 2013 – $176,283). Parkland believes it has sufficient funding through the use of its facility to meet foreseeable borrowing requirements.

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

Undiscounted cash outflows relating to financial liabilities are outlined in the tables below:

| **As at September 30, 2014** | **2014** | **2015** | **2016** | **2017** | **2018** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| Bank indebtedness | **4,994** | **-** | **-** | **-** | **-** | **-** | **4,994** |
| Accounts payable and accrued liabilities | **372,477** | **-** | **-** | **-** | **-** | **-** | **372,477** |
| Dividends declared and payable | **6,698** | **-** | **-** | **-** | **-** | **-** | **6,698** |
| Long-term debt, including capital lease obligations (1) | **4,612** | **14,711** | **15,942** | **13,856** | **116,364** | **227,688** | **393,173** |
| Convertible debentures (1) | **79,053** | **47,191** | **-** | **-** | **-** | **-** | **126,244** |

(1) Principal and interest, including current portion

| As at December 31, 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Bank indebtedness | 2,539 | - | - | - | - | - | 2,539 |
| Accounts payable and accrued liabilities | 375,799 | - | - | - | - | - | 375,799 |
| Dividends declared and payable | 6,225 | - | - | - | - | - | 6,225 |
| Long-term debt, including capital lease obligations (1) | 8,437 | 7,144 | 7,095 | 227,680 | 66 | 450 | 250,872 |
| Convertible debentures (1) | 92,630 | 47,553 | - | - | - | - | 140,183 |

(1) Principal and interest, including current portion

## 10. PROPERTY, PLANT AND EQUIPMENT

| **Period ending September 30, 2014** | **Land** | **Land Improvements** | **Buildings** | **Assets under Capital Lease** | **Plant and Equipment** | **Asset Retirement Costs** | **Total** |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance, as at January 1, 2014 | **37,103** | **29,148** | **77,129** | **8,229** | **352,672** | **31,743** | **536,024** |
| Additions | **-** | **791** | **2,410** | **-** | **24,543** | **-** | **27,744** |
| Change in asset retirement obligation | **-** | **-** | **-** | **-** | **-** | **7,531** | **7,531** |
| Additions due to acquisitions (Note 20) | **5,993** | **1,891** | **7,255** | **-** | **15,466** | **8,590** | **39,195** |
| Disposals | **(963)** | **(58)** | **(259)** | **-** | **(3,787)** | **-** | **(5,067)** |
| Exchange differences | **135** | **71** | **252** | **-** | **1,307** | **221** | **1,986** |
| Balance, as at September 30, 2014 | **42,268** | **31,843** | **86,787** | **8,229** | **390,201** | **48,085** | **607,413** |
| | | | | | | | |
| **Depreciation and impairment** | | | | | | | |
| Balance, as at January 1, 2014 | **-** | **6,722** | **29,682** | **5,911** | **168,042** | **6,323** | **216,680** |
| Depreciation charge for the year | **-** | **612** | **3,905** | **485** | **24,708** | **8,440** | **38,150** |
| Disposals | **-** | **(30)** | **(100)** | **-** | **(2,695)** | **(1,592)** | **(4,417)** |
| Exchange differences | **-** | **225** | **(152)** | **-** | **721** | **18** | **812** |
| Balance, as at September 30, 2014 | **-** | **7,529** | **33,335** | **6,396** | **190,776** | **13,189** | **251,225** |
| | | | | | | | |
| **Carrying amount** | | | | | | | |
| As at September 30, 2014 | **42,268** | **24,314** | **53,452** | **1,833** | **199,425** | **34,896** | **356,188** |

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

| Year ending December 31, 2013 | Land | Land Improvements | Buildings | Assets under Capital Lease | Plant and Equipment | Asset Retirement Costs | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance, as at January 1, 2013 | 37,528 | 28,741 | 70,844 | 7,141 | 282,640 | 22,460 | 449,354 |
| Additions | 885 | 527 | 5,594 | - | 49,705 | - | 56,711 |
| Change in asset retirement obligation | - | - | - | - | - | 9,283 | 9,283 |
| Additions due to Acquisitions | 1,207 | 187 | 1,705 | 1,200 | 28,251 | - | 32,550 |
| Disposals | (2,517) | (307) | (1,014) | - | (8,036) | - | (11,874) |
| Transfers | - | - | - | (112) | 112 | - | - |
| Balance, as at December 31, 2013 | 37,103 | 29,148 | 77,129 | 8,229 | 352,672 | 31,743 | 536,024 |
| | | | | | | | |
| **Depreciation and impairment** | | | | | | | |
| Balance, as at January 1, 2013 | - | 6,112 | 25,955 | 5,326 | 148,325 | 5,232 | 190,950 |
| Depreciation charge for the year | - | 737 | 4,464 | 690 | 25,953 | 1,091 | 32,935 |
| Disposals | - | (127) | (737) | - | (6,341) | - | (7,205) |
| Transfers | - | - | - | (105) | 105 | - | - |
| Balance, as at December 31, 2013 | - | 6,722 | 29,682 | 5,911 | 168,042 | 6,323 | 216,680 |
| | | | | | | | |
| **Carrying amount** | | | | | | | |
| As at December 31, 2013 | 37,103 | 22,426 | 47,447 | 2,318 | 184,630 | 25,420 | 319,344 |

As at September 30, 2014, Parkland had assets under construction of $9,824 (December 31, 2013 – $10,695) consisting primarily of constructing and upgrading retail stations.

## 11. INTANGIBLE ASSETS

| Nine months ended September 30, 2014 | Customer Relationships | Trade names | Non-compete agreements | Lease Benefit | Software systems | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance, as at January 1, 2014 | **191,417** | **12,245** | **6,111** | **1,550** | **18,072** | **229,395** |
| Additions | **-** | **-** | **-** | **-** | **75** | **75** |
| Additions due to acquisitions (Note 21) | **43,594** | **7,725** | **432** | **297** | **-** | **52,048** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** |
| Exchange differences | **1,630** | **289** | **16** | **12** | **-** | **1,947** |
| Balance, as at September 30, 2014 | **236,641** | **20,259** | **6,559** | **1,859** | **18,147** | **283,465** |
| | | | | | | |
| **Accumulated amortization** | | | | | | |
| Balance, as at January 1, 2014 | **84,438** | **6,570** | **5,050** | **452** | **5,874** | **102,384** |
| Amortization charge for the period | **15,364** | **1,344** | **696** | **404** | **1,360** | **19,168** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** |
| Exchange differences | **76** | **14** | **2** | **-** | **-** | **92** |
| Balance, as at September 30, 2014 | **99,878** | **7,928** | **5,748** | **856** | **7,234** | **121,644** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| Balance, as at September 30, 2014 | **136,763** | **12,331** | **811** | **1,003** | **10,913** | **161,821** |

| Year ended December 31, 2013 | Customer Relationships | Trade names | Non-compete agreements | Lease Benefit | Software systems | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance, as at January 1, 2013 | 158,304 | 6,601 | 3,835 | - | 18,072 | 186,812 |
| Additions due to acquisitions | 33,113 | 5,829 | 2,276 | 1,550 | - | 42,768 |
| Disposals | - | (185) | - | - | - | (185) |
| Balance, as at December 31, 2013 | 191,417 | 12,245 | 6,111 | 1,550 | 18,072 | 229,395 |
| | | | | | | |
| **Accumulated amortization** | | | | | | |
| Balance, as at January 1, 2013 | 67,452 | 5,781 | 2,540 | - | 4,066 | 79,839 |
| Amortization charge for the period | 16,986 | 795 | 2,510 | 452 | 1,808 | 22,551 |
| Disposals | - | (6) | - | - | - | (6) |
| Balance, as at December 31, 2013 | 84,438 | 6,570 | 5,050 | 452 | 5,874 | 102,384 |
| | | | | | | |
| **Carrying amount** | | | | | | |
| As at December 31, 2013 | 106,979 | 5,675 | 1,061 | 1,098 | 12,198 | 127,011 |

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

## 12. GOODWILL

| | **January 1, 2014 to September 30, 2014** | January 1, 2013 to December 31, 2013 |
|---|---|---|
| Balance, beginning of period | **132,493** | 91,138 |
| Acquisition of SPF Energy Inc. (Note 21) | **34,548** | - |
| Acquisition of Chevron-branded service stations (Note 21) | **9,885** | |
| Acquisition of Elbow River Marketing | **-** | 35,900 |
| Acquired through TransMontaigne | **-** | 12 |
| Acquired through Scotsburn and R-Gas | **-** | 159 |
| Acquired through Sparling's Propane | **-** | 5,284 |
| Exchange differences | **1,420** | - |
| Balance, end of period | **178,346** | 132,493 |

The Corporation did not identify any indicators of impairment during the period ended September 30, 2014.

## 13. LONG-TERM RECEIVABLES

Long-term receivables consist of dealer loans and forgivable loans to dealers and customers:

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Dealer loans | **2,413** | 1,903 |
| Forgivable loans to dealers and customers | **10,776** | 10,178 |
| Long-term receivables | **13,189** | 12,081 |

Dealer loans receivable are repayable in monthly instalments of $248 (December 31, 2013 – $218), bear interest at rates ranging between nil% and 10% (December 31, 2013 – nil% and 10.00%) and are secured by specific assets of the borrower.

Forgivable loans to dealers and customers are amortized based on the volume of fuel product purchased from Parkland. For every litre of fuel product purchased by the dealer or customer a portion of the loan is recognized as a reduction of sales and operating revenue. Forgivable loans to dealers and customers are secured by specific assets of the dealers and customers.

The current portion of the dealer loans of $182 (December 31, 2013 – $180) and the forgivable loans to dealers and customers of $3,644 (December 31, 2013 – $2,603) are included in accounts receivable under current assets.

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

## 14. FINANCING AND CREDIT FACILITIES

### Long-Term Debt

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Credit Facility (a) | 102,553 | 224,000 |
| Unamortized discount: deferred financing costs | (1,074) | (1,685) |
| | 101,479 | 222,315 |
| Senior Unsecured Notes (b) | 200,000 | - |
| Unamortized premium: Redemption Option | 3,084 | - |
| Unamortized discount: deferred financing costs | (4,623) | - |
| | 198,461 | - |
| Capital lease obligations (c) | 1,636 | 1,842 |
| Collateralized notes (d) | 6,822 | - |
| Other loans | 59 | 152 |
| | 8,517 | 1,994 |
| Total long-term debt | 308,457 | 224,309 |
| Less: current portion | (2,001) | (1,354) |
| Long-term debt | 306,456 | 222,955 |

The following table details the estimated long-term debt repayments for the next five years and thereafter:

| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Interest included in minimum lease payments | Total |
|---|---|---|---|---|---|---|---|---|
| Credit Facility (a) | - | - | - | - | 102,553 | - | - | 102,553 |
| Senior Unsecured Notes (b) | - | - | - | - | - | 200,000 | | 200,000 |
| Capital lease obligations (c) | 1,049 | 124 | 60 | 163 | 66 | 450 | (276) | 1,636 |
| Collateralized notes (d) | 223 | 1,287 | 2,617 | 428 | 1,612 | 655 | - | 6,822 |
| Other loans | 24 | 35 | - | - | - | - | - | 59 |
| | 1,296 | 1,446 | 2,677 | 591 | 104,231 | 201,105 | (276) | 311,070 |

### (a) Credit Facility

A revolving extendible credit facility (the "Credit Facility") agreement was last amended on June 30, 2014 to extend the maturity to June 30, 2018. The facility is extendible each year for a rolling four-year period at the option of Parkland. If the Credit Facility is not extended past the maturity date of June 30, 2018, all amounts outstanding are repayable on the maturity date.

The Credit Facility is for a maximum amount of $320,000 and US$30,000 (December 31, 2013 – $450,000) with interest only payable at the bank's Canadian and US prime lending rate plus 0.50% to 1.75% (December 31, 2013 – 0.75% to 2.00%) per annum.

The Credit Facility includes the following components:

i) A revolving operating loan to a maximum of $320,000 and US$30,000 less the value of letters of credit issued (December 31, 2013 – $450,000). At September 30, 2014, the outstanding borrowings totalled $102,553 (December 31, 2013 – $229,980). The revolving operating loan bears interest at prime plus 0.75% (December 31, 2013 – prime plus 1.00%), Bankers' Acceptance rate plus 1.75% (December 31, 2013 – Bankers' Acceptance rate plus 2.00%) or LIBOR rate plus 1.75%. The interest rate at September 30, 2014 was 3.75% for prime-based loans (December 31, 2013 – 4.00%), 2.96% for Bankers' Acceptance based loans (December 31, 2013 – 3.23%) and the range from 1.95% to 2.07% for LIBOR loans.

ii) A letter of credit facility to a maximum of $100,000 and US$10,000 (December 31, 2013 – $85,000). At September 30, 2014, outstanding balances totalled $14,287 (December 31, 2013 – $43,737) which mature at various dates up to October 31, 2014.

The revolving operating loan incurs standby fees for any unused portion of the facility at a rate of 0.300% to 0.619% (December 31, 2013 – 0.394% to 0.675%) depending on the ratio of funded debt to earnings before interest, taxes and depreciation and amortization, gain (loss) on disposal of property, plant and equipment, non-cash stock based compensation, non-recurring transactions related to earnings (losses), cash payments related to non-cash charges that were added back previously, and (gain) loss from the change in fair value of commodities forward contracts and US dollar forward exchange contracts included in risk management activities ("EBITDA" – as defined under the terms of the credit facility). Security on the Credit Facility is the assignment of insurance and a floating charge demand debenture for $900,000 creating a first floating charge over all of the undertaking, property and assets of Parkland.

At September 30, 2014, Parkland was in compliance with all debt covenants. Debt covenant ratios are tested on a trailing four quarter EBITDA (as defined under the terms of the credit facility) including acquisition related costs basis. The financial covenants under the Credit Facility are as follows:

1. Ratio of senior funded debt (which excludes the convertible debentures and unsecured subordinated senior debt (if any) but includes issued letters of credit) to EBITDA (as defined under the terms of the credit facility) including acquisition related costs shall not exceed 3.00 to 1.00 during the second and third quarters and shall not exceed 3.50 to 1.00 during the first and fourth quarters of Parkland's fiscal year;
2. Ratio of total funded debt (which excludes the convertible debentures but includes issued letters of credit) to EBITDA (as defined under the terms of the credit facility) including acquisition related costs shall not exceed 4.00 to 1.00 during the second and third quarters and shall not exceed 4.50 to 1.00 during the first and fourth quarters of Parkland's fiscal year; and

3. Fixed charge coverage ratio (as defined under the terms of the credit facility) at each quarter shall not be less than 1.15 to 1.00;

As at September 30, 2014, the Corporation provided $450,604 (December 31, 2013 – $326,324) of unsecured guarantees to counter parties of commodity and US dollar forward exchange contracts used in natural gas liquids and crude oil purchases.

Deferred financing costs have been accounted for as a reduction of Credit Facility and amortized over the expected remaining term of the Credit Facility.

**(b) Senior Unsecured Notes**

On May 29, 2014, the Corporation completed a private placement of senior unsecured notes due on May 28, 2021 with an aggregate principal amount of $200,000 (the "Senior Unsecured Notes"). The Senior Unsecured Notes bear interest of 5.5% per annum, payable semi-annually in arrears on May 28 and November 28 of each year until maturity. The first interest payment will be paid on November 28, 2014. The Senior Unsecured Notes are guaranteed by Parkland subsidiaries and are unsecured obligations. As at September 30, 2014, the outstanding amount due on the Senior Unsecured Notes was $200,000 (December 31, 2013 – $nil).

The Senior Unsecured Notes contain a Redemption Option that allows the Corporation to redeem the notes prior to maturity at a premium. The Redemption Option has been accounted for as an embedded derivative financial instrument under IFRS. On initial recognition, the Redemption Option was ascribed a fair value of $3,220, which is recorded within other long-term assets in the consolidated balance sheet. On initial recognition, the carrying value of the Senior Unsecured Notes was increased by the same amount as the debt premium arising from the Redemption Option, which is amortized over the term of the Senior Unsecured Notes. The amortization of the debt premium arising from the Redemption Option was $96 and $136 for the three and nine months ended September 30, 2014, respectively ($nil and $nil for the three and nine months ended September 30, 2013 respectively), which is presented within finance costs in the consolidated statements of income.

At September 30, 2014, Parkland was in compliance with all of the covenants limiting Parkland's ability to:

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

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

### (c) Capital Lease Obligations

Capital leases are payable in monthly instalments totalling $24 (December 31, 2013 – $22) including interest varying from 3.4% to 10.2% (December 31, 2013 – 3.4% to 10.2%). The leases are for land, buildings and equipment with a net book value of $1,833 (December 31, 2013 – $2,318), and mature at various dates ending up to July 2022.

### (d) Collateralized Notes

On January 8, 2014, in connection with the acquisition of SPF Energy Inc., the Corporation assumed various collateralized notes held by SPF Energy Inc. of $7,901. The collateralized notes are held with various financial institutions, carry fixed interest rates ranging from 0% to 6.24%, are denominated in US dollars and are secured by various real estate and equipment of SPF Energy Inc. Payments are due monthly with maturity dates ranging from 2014 to 2028. At September 30, 2014, the outstanding amounts due on the collateralized notes were $6,822 (December 31, 2013 – $nil).

## 15. CONVERTIBLE DEBENTURES

On December 1, 2009, Parkland issued $97,750 principal amount of 6.5% series 1 convertible unsecured subordinated debentures ("Series 1 Debentures"), at a price of $1 per debenture. Interest on the Series 1 Debentures is paid semi-annually in arrears, on November 30 and May 31 in each year commencing May 31, 2010. On December 21, 2010, Parkland issued $45,000 principal amount of 5.75% series 2 convertible unsecured subordinated debentures ("Series 2 Debentures"), at a price of $1 per debenture. Interest on the Series 2 Debentures is paid semi-annually in arrears, on June 30 and December 31 in each year commencing June 30, 2011. Collectively, the Series 1 Debentures and the Series 2 Debentures are referred to as the "Debentures". The Debentures are convertible at the option of the holder at any time into common shares of the Corporation at a conversion price of $14.60 per share for the Series 1 Debentures and $18.00 per share for the Series 2 Debentures. Upon issuance, the conversion feature values of the Series 1 Debentures and the Series 2 Debentures were considered immaterial.

The Series 1 Debentures mature on November 30, 2014 and the Series 2 Debentures mature on December 31, 2015 at which time the Debentures are due and payable. The Series 1 Debentures were redeemable in whole or in part at the option of Parkland on or after November 30, 2012 and prior to November 30, 2013 and the Series 2 Debentures may be redeemed in whole or in part at the option of Parkland on or after December 31, 2013 and prior to December 31, 2014, on not more than 60 days and not less than 30 days prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the current market price of the common shares of Parkland on the date immediately preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. The Debentures may be redeemed prior to their maturity dates in whole or in part at a price equal to their principal amount plus accrued and unpaid interest on or after November 30, 2013 for the Series 1 Debentures and on or after December 31, 2014 for the Series 2 Debentures.

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

Upon the maturity or redemption of the Debentures, Parkland may pay the outstanding principal of the Debentures in cash or may, at its option, on not greater than 60 days and not less than 40 days prior notice and subject to regulatory approval, elect to satisfy its obligations to repay all or a portion of the principal amount of the Debentures which have matured or been redeemed by issuing and delivering that number of common shares obtained by dividing the aggregate principal amount of the Debentures which have matured or redeemed by 95% of the weighted average trading price of the common shares of Parkland on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the maturity date, as the case may be. Any accrued and unpaid interest thereon will be paid in cash.

The following table reconciles the principal amount, debt component and equity component of the Debentures.

| | **January 1, 2014 to September 30, 2014** | | January 1, 2013 to December 31, 2013 | |
|---|---|---|---|---|
| | **Principal amount of convertible debentures** | **Carrying value of convertible debentures** | Principal amount of convertible debentures | Carrying value of convertible debentures |
| Current Portion: | | | | |
| Series 1 Debentures | | | | |
| Balance, beginning of period | **84,990** | **83,239** | 96,794 | 93,130 |
| Conversion to common shares | **(7,425)** | **(7,425)** | (11,804) | (11,804) |
| Change due to passage of time | **-** | **1,431** | - | 1,913 |
| Balance, current portion, end of period | **77,565** | **77,245** | 84,990 | 83,239 |
| Non-Current Portion: | | | | |
| Series 2 Debentures | | | | |
| Balance, beginning of period | **44,967** | **44,168** | 44,975 | 43,777 |
| Conversion to common shares | **(342)** | **(342)** | (8) | (8) |
| Change due to passage of time | **-** | **298** | - | 399 |
| Balance, non-current portion, end of period | **44,625** | **44,124** | 44,967 | 44,168 |
| Series 1 and Series 2 Debentures, end of period | **122,190** | **121,369** | 129,957 | 127,407 |

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

## 16. ASSET RETIREMENT OBLIGATIONS

| | **January 1, 2014 to September 30, 2014** | January 1, 2013 to December 31, 2013 |
|---|---|---|
| Asset retirement obligations, beginning of the period | **42,648** | 30,293 |
| Additional provisions made during the period | **8,193** | 20,236 |
| Additions due to acquisitions (Note 21) | **8,590** | - |
| Amounts used during the period | **(602)** | (2,446) |
| Unused amounts reversed during the period | **(4,638)** | (3,053) |
| Change due to passage of time, exchange differences and discount rate | **6,559** | (2,382) |
| Asset retirement obligations, end of the period | **60,750** | 42,648 |
| | | |
| Current | **7,943** | 2,995 |
| Non-current | **52,807** | 39,653 |
| Asset retirement obligations, end of the period | **60,750** | 42,648 |

Parkland is liable for the environmental obligations related to the removal of its storage tanks at properties that it leases and owns. The asset retirement obligation represents the present value estimate of Parkland's cost to remove these tanks. The total undiscounted estimated future cash flows required to settle Parkland's obligation was $90,141 at September 30, 2014 (December 31, 2013 – $70,872). The costs are expected to be paid up to 2046. At September 30, 2014, the discount rates used to determine the present value of the future costs was in the range of 3.91% – 4.37% (December 31, 2013 – 5.01%).

## 17. REFINERY AND TERMINAL REMEDIATION ACCRUAL

| | **January 1, 2014 to September 30, 2014** | January 1, 2013 to December 31, 2013 |
|---|---|---|
| Refinery remediation accrual, beginning of period | **11,803** | 13,957 |
| Additions during the period | **1,245** | - |
| Unused amounts reversed during the period | **(2,692)** | - |
| Change due to passage of time and discount rate | **2,871** | (2,154) |
| Refinery remediation accrual, end of period | **13,227** | 11,803 |

Parkland has estimated the discounted cost of remediation on the basis that remediation would be part of a multi-year management plan. Remediation costs have been estimated using engineering studies conducted in December 2007 and updated by the Corporation's management in 2013. The total undiscounted estimated future cash flows required to settle Parkland's obligation was $30,553 at September 30, 2014 (December 31, 2013 – $31,777). The costs are expected to be incurred between 2018 and 2041 (December 31, 2013 – 2018 to 2041). At September 30, 2014, the discount rate used to determine the present value of the future costs was 3.91% (December 31, 2013 – 5.01%).

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

## 18. SHAREHOLDERS' CAPITAL

### (a) Shareholders' Capital

Authorized capital of Parkland consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. Changes to shareholders' capital were as follows:

| | **January 1, 2014 to September 30, 2014** | | January 1, 2013 to December 31, 2013 | |
|---|---|---|---|---|
| | **Number of common shares** | **Amount** | Number of common shares | Amount |
| Shareholders' capital, beginning of period | **71,795** | **$ 411,503** | 67,973 | $ 349,591 |
| Issued on capital acquisition, net of issue costs | **1,163** | **21,484** | - | - |
| Issued under dividend reinvestment plan | **2,096** | **40,053** | 2,940 | 49,613 |
| Issued under share option plan | **333** | **4,779** | 51 | 487 |
| Issued on vesting of restricted shares | **142** | **1,235** | 22 | - |
| Issued upon conversion of debentures | **528** | **7,767** | 809 | 11,812 |
| Shareholders' capital, end of period | **76,057** | **$ 486,821** | 71,795 | $ 411,503 |

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

The Premium Dividend Plan provides eligible shareholders with a 2% cash premium on top of their regular cash dividend. Participants electing this option will receive a monthly payment of $0.0901 per share for dividend declared to shareholders of record on and after March 21, 2014. Prior to March 21, 2014, the participants received $0.0885 per share under this option. The Enhanced Dividend Reinvestment Plan allows shareholders to purchase additional shares with their dividend at a 5% discount to the volume weighted average price as defined by the plan. Those shareholders who do not elect to participate in the Premium Dividend and Enhanced Dividend Reinvestment Plan will still receive their regular monthly dividend of $0.0883 per share for dividend declared on and after March 21, 2014. Prior to March 21, 2014, the participants received $0.0867 per share under this option.

### (b) Stock Option Plans

Parkland has two stock option plans under which Parkland may issue from treasury, together with any other compensation arrangement, an amount not to exceed 10% of the issued and outstanding common shares. The eligible participants are officers, employees or consultants of the Corporation. The exercise price shall be fixed by the Board of Directors at the time of grant; provided that the exercise price shall not be less than fair market value of the common shares.

Under the Share Option Plan, each annual vesting tranche is considered a separate award with its own vesting period and grant date fair value. Fair value of each annual vesting tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

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

Effective May 13, 2014, Parkland introduced a new grant agreement, the Penny Plan Stock Option Plan. Stock options granted under this plan vest on a fixed basis at 100% only when specific entity performance criteria such as non-acquired Adjusted EBITDA improvement and total Adjusted EBITDA targets are met. Adjusted EBITDA is defined as net earnings before finance costs, income taxes, depreciation and amortization, gain (loss) on disposal of property, plant and equipment, acquisition costs, unrealized (gain) loss from the change in fair value of commodities forward contracts, future contracts and US dollar forward exchange contracts included in risk management activities and unrealized gain (loss) on foreign exchange. The fair value of the vesting tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any change immediately recognized.

Share options outstanding at September 30, 2014 have the following expiry dates and exercise prices:

| Grant-vest | Expiry date | Exercise price ($ per share) | Share options outstanding as at September 30, 2014 | Share options outstanding as at December 31, 2013 |
|---|---|---|---|---|
| 2005-8 | Jan 2015 | $ 7.27 | **15** | 30 |
| 2011-12 | May 2019 | 10.47 | **-** | 29 |
| 2011-12 | May 2019 | 12.25 | **103** | 126 |
| 2011-13 | May 2019 | 10.47 | **-** | 29 |
| 2011-13 | May 2019 | 12.25 | **103** | 126 |
| 2011-14 | May 2019 | 10.47 | **-** | 29 |
| 2011-14 | May 2019 | 12.25 | **105** | 135 |
| 2012-13 | May 2020 | 13.8 | **82** | 134 |
| 2012-14 | May 2020 | 13.8 | **82** | 137 |
| 2012-15 | May 2020 | 13.8 | **103** | 137 |
| 2013-14 | March 2021 | 17.74 | **42** | 42 |
| 2013-15 | March 2021 | 17.74 | **41** | 41 |
| 2013-16 | March 2021 | 17.74 | **42** | 42 |
| 2013-14 | May 2021 | 17.79 | **158** | 216 |
| 2013-15 | May 2021 | 17.79 | **165** | 216 |
| 2013-16 | May 2021 | 17.79 | **165** | 216 |
| 2014-15 | May 2022 | 20.57 | **174** | - |
| 2014-16 | May 2022 | 20.57 | **640** | - |
| 2014-17 | May 2022 | 20.57 | **174** | - |
| | | | **2,194** | 1,685 |

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

The total share option compensation cost that has been included in marketing, general and administrative expenses for the three and nine month period ended September 30, 2014 amounted to $311 and $809, respectively ($190 and $757 for the three and nine month period ended September 30, 2013, respectively).

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

| | **January 1, 2014 to September 30, 2014** | | January 1, 2013 to December 31, 2013 | |
|---|---|---|---|---|
| | **Number of options** | **Average exercise price per option** | Number of options | Average exercise price per option |
| Share options, beginning of period | **1,685** | **$ 14.97** | 991 | $ 12.40 |
| Granted | **1,141** | **20.57** | 774 | 17.78 |
| Exercised | **(333)** | **12.92** | (51) | 9.21 |
| Forfeited | **(299)** | **18.65** | (29) | 12.62 |
| Share options, end of period | **2,194** | **$ 17.70** | 1,685 | $ 14.97 |
| | | | | |
| Exercisable options, end of period | **705** | **$ 13.94** | 475 | $ 12.13 |

Out of the 2,194 outstanding options (December 31, 2013 – 1,685), 705 options were exercisable (December 31, 2013 – 475). Options exercised during the period ended September 30, 2014 resulted in 333 (December 31, 2013 – 51) shares being issued at a weighted average price of $12.92 each (December 31, 2013 – $9.21 each). The related weighted average share price over the period of exercise was $20.41 (December 31, 2013 – $17.84) per share.

The weighted average fair value of options granted during the nine month period ended September 30, 2014, using the Black-Scholes valuation model was $1.45 (December 31, 2013 – $1.75) per option. The significant inputs into the model were weighted average share price of $20.57 (December 31, 2013 – $17.78) at the grant date, exercise price of $20.57 (December 31, 2013 – $17.78), volatility of 21.6% (December 31, 2013 – 27.1%), dividend yield of 5.15% (December 31, 2013 – 5.85%), an expected option life of eight years and an annual risk-free interest rate of 1.16% (December 31, 2012 – 1.15%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last two years.

### (c) Restricted Share Unit Plans

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

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

Under the Restricted Share Unit Plan the units granted in 2009 and 2010 vest over a three year period. For grants prior to 2011, the restricted share units vesting is typically subject to entity performance criteria, including maintenance of the annual fund distribution target. For restricted share units granted on or after January 1, 2011, restricted share units are earned over a three year period with vesting at the third anniversary of the grant. The number of shares earned can range from 0 to 200% of the grant amount based on entity performance criteria, specifically Total Shareholder Return ("TSR") ranking versus a specified peer group of companies. In March 8, 2012, the Restricted Share Unit Plan was amended to award participants with additional RSUs upon each dividend payment made by the Corporation.

Effective May 13, 2014, Parkland introduced a new grant agreement, the Penny Plan Restricted Share Unit Plan. The restricted share units under this plan vest on a fixed basis at 100% only when specific entity performance criteria such as non-acquired Adjusted EBITDA improvement and total Adjusted EBITDA targets are met.

Changes in the number of RSUs with their average share price are summarized below:

| | **January 1, 2014 to September 30, 2014** | | January 1, 2013 to December 31, 2013 | |
|---|---|---|---|---|
| | **Number of RSU's** | **Weighted Average Share Price** | Number of RSU's | Weighted Average Share Price |
| Restricted share units, beginning of period | **548** | **$ 14.73** | 336 | $ 13.14 |
| Granted | **308** | **19.27** | 256 | 17.79 |
| Dividend equivalents | **10** | **19.08** | 12 | 16.52 |
| Issued on vesting | **(210)** | **12.57** | (45) | 13.18 |
| Cancelled | **(75)** | **12.57** | (11) | - |
| Restricted share units, end of period | **581** | **$ 18.27** | 548 | $ 14.73 |

The total compensation cost that has been included in marketing, general and administrative expenses for the three and nine month period ended September 30, 2014 amounted to $307 and $2,168, respectively ($636 and $1,768 for the three and nine month period ended September 30, 2013, respectively).

**(d) Deferred Share Unit Plan**

Parkland established the deferred share units ("DSUs") plan for non-executive members of the Board of Directors as a long-term incentive plan. Under this plan, each director is entitled to receive DSUs as a result of a grant and/or in lieu of directors' fees. Furthermore, directors receive additional DSUs upon each dividend payment made by the Corporation. The fair value of the DSUs on the grant day is based on the weighted average trading price of the shares on the Toronto stock exchange for the five trading days immediately preceding the date of the grant. DSUs vest immediately on the day of the grant and they are redeemed for cash when the director ceases to be a member of the Board of Directors. Compensation expense is recognized in the marketing, general and administrative expense immediately upon the vesting of DSUs.

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

The Corporation has recorded a liability of $3,194 at September 30, 2014 (December 31, 2013 – $2,209) in the Consolidated Balance Sheets for DSUs based on the market value of Parkland's common shares as September 30, 2014. The total compensation costs that have been included in marketing, general and administrative expenses for the three and nine month period ended September 30, 2014 amounted to $173 and $985 ($167 and $922 for the three and nine month period ended September 30, 2013, respectively).

Changes in the number of DSU's are summarized below:

| | **January 1, 2014 to September 30, 2014** | January 1, 2013 to December 31, 2013 |
|---|---|---|
| | **Number of DSU's** | Number of DSU's |
| Deferred share units, end of period | **120** | 87 |
| Granted | **25** | 27 |
| Dividends equivalent | **5** | 6 |
| Redeemed | **-** | - |
| Deferred share units, end of period | **150** | 120 |

### (e) Shareholder Rights Plan

The Shareholder Rights Plan is intended to ensure that in the context of an unsolicited take-over proposal for the common shares of Parkland, the Board of Directors has sufficient time to explore and develop strategic alternatives that are in the best interests of Parkland's investors.

The Board of Directors has authorized the issuance of one right in respect of each common share of the Corporation outstanding at the close of business on March 18, 2014 and each share issued thereafter. The rights will become exercisable if a person, together with its affiliates, associates and joint actors, acquires or announces an intention to acquire beneficial ownership of common shares which, when aggregated with its current holdings, total 20 per cent or more of the outstanding common shares of the Corporation (determined in the manner set out in the Rights Plan). Following the acquisition of 20 per cent or more of the outstanding common shares, each right held by a person other than the acquiring person and its affiliates, associates and joint actors would, upon exercise, entitle the holder to purchase the common shares at a substantial discount to the market price of the common shares at that time.

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

## 19. FINANCE COSTS

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Interest on long-term debt | **3,621** | 1,655 | **9,515** | 5,438 |
| Interest and accretion on convertible debentures | **2,565** | 2,634 | **7,761** | 7,912 |
| Amortization of deferred financing costs | **360** | 366 | **1,320** | 1,019 |
| Accretion on refinery remediation | **128** | 136 | **369** | 408 |
| Accretion on asset retirement obligation | **517** | 89 | **1,497** | 239 |
| Change in fair value of Redemption Option | **(800)** | - | **(720)** | - |
| Amortization of debt premium arising from Redemption Option | **(96)** | - | **(136)** | - |
| (Gain) loss on interest rate swap | **-** | (89) | **(348)** | 12 |
| Finance costs | **6,295** | 4,791 | **19,258** | 15,028 |

## 20. CAPITAL MANAGEMENT

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

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

Parkland monitors its capital structure and financing requirements using non-GAAP financial metrics consisting of Net Debt to Capitalization and Net Debt to Adjusted EBITDA. The metrics are used to monitor and guide the Corporation's overall financial strength and flexibility of capital structure.

Parkland currently targets a Net Debt to Capitalization ratio of below 50% on a long-term basis. This target may be exceeded if strategic acquisitions are available. At September 30, 2014, the Net Debt to Capitalization ratio was 44% (December 31, 2013 – 44%), calculated as follows:

| | **September 30, 2014** | December 31, 2013 (revised - see note 2) |
|---|---|---|
| Bank Indebtedness | **4,994** | 2,539 |
| Long-term debt (including current portion) | **308,457** | 224,309 |
| Convertible debentures (including current portion) | **121,369** | 127,407 |
| Cash and cash equivalents | **(47,635)** | (8,986) |
| Restricted cash | **(1,833)** | (1,833) |
| Net Debt | **385,352** | 343,436 |
| Shareholders' equity | **485,619** | 429,823 |
| Capitalization | **870,971** | 773,259 |
| | | |
| Net Debt to Capitalization | **44%** | 44% |

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

Parkland currently targets a Net Debt to Adjusted EBITDA ratio of less than 3.0 times (December 31, 2013 – 3.0 times). This target may be exceeded if strategic acquisitions are available. Adjusted EBITDA from acquisitions is not included for periods prior to acquisition in the following trailing twelve-month Adjusted EBITDA calculation. At September 30, 2014 the debt to Adjusted EBITDA ratio was 2.11 times (December 31, 2013 – 1.66 times) calculated on a trailing twelve-month basis as follows:

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Net Debt | **385,352** | 343,436 |
| | | |
| Net earnings | **61,690** | 91,957 |
| Add: | | |
| Depreciation and amortization | **72,106** | 56,003 |
| Finance costs (1) | **24,114** | 19,884 |
| Unrealized (gain) loss from foreign exchange | **(1,250)** | 592 |
| Loss on disposal of property, plant and equipment | **1,911** | 2,440 |
| Unrealized gain from the change in fair value of commodities forward contracts, US dollar forward exchange contracts and future contracts | **(8,789)** | (1,309) |
| Income tax expense | **22,262** | 31,010 |
| Acquisition costs | **10,662** | 6,852 |
| Adjusted EBITDA (2) | **182,706** | 207,429 |
| | | |
| Net Debt to Adjusted EBITDA | **2.11** | 1.66 |

(1) Includes realized and unrealized (gain) loss on the interest rate swap
(2) Includes the realized and unrealized (gain) loss on put options

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

## 21. ACQUISITIONS

### (a) Acquisition of SPF Energy Inc.

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

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

The preliminary fair value of the identifiable assets and liabilities of SPF Energy Inc. are as follows:

| | January 8, 2014 (restated) |
|---|---|
| Assets | |
| Cash | 2,576 |
| Accounts receivable | 44,347 |
| Prepaid expenses and other | 3,177 |
| Inventory | 14,451 |
| Income tax receivable | 227 |
| Property, plant and equipment (Note 9) | 31,002 |
| Intangible assets (Note 10) | 52,048 |
| | 147,828 |
| Liabilities | |
| Accounts payable and accrued liabilities | (32,272) |
| Deferred revenue | (739) |
| Asset retirement obligation (Note 15) | (5,354) |
| Bank indebtedness | (10,455) |
| Collateralized notes | (7,901) |
| Deferred tax liability | (27,522) |
| | (84,243) |
| Goodwill arising on acquisition (Note 11) | 34,548 |
| Purchase consideration transferred | 98,133 |
| Fair value analysis of purchase consideration transferred | |
| Cash paid | 76,649 |
| Common shares (Note 17) | 21,484 |
| Total purchase consideration | 98,133 |
| Analysis of cash flows on acquisition | |
| Cash paid | 76,649 |
| Net cash acquired | (2,576) |
| Bank indebtedness assumed | 10,455 |
| Net cash outflow (included in cash used in investing activities) | 84,528 |

The transaction has been accounted for using the acquisition method. The allocation of the purchase price was based on the preliminary fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill. During the three months ended June 30, 2014, the Corporation made revisions to certain preliminary estimates that resulted in an increase of $3,446 to property, plant and equipment and an increase of $3,446 to asset retirement obligation. These adjustments have been applied retrospectively to the acquisition date of January 8, 2014, resulting in revised property, plant and equipment and asset retirement obligation balances of $31,002 and $5,354 respectively. Given the recent timing of the transaction, Parkland is still assessing the fair value of the net assets acquired. As a result, these amounts are subject to change.

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

The fair value of accounts receivable amounts to $44,347. The gross amount of trade receivables is $45,726. None of the accounts receivable amounts have been impaired and it is expected that the full contractual amounts can be collected. Accounts payable and accrued liabilities acquired have a fair value that equal their gross contractual value and expected cash outflow at the acquisition date.

The goodwill of $34,548 is attributable to the anticipated future revenue from the expansion of Parkland in the Northwest United States, export opportunities for excess refined product in Western Canada, and expected synergies from combining the assets and liabilities of SPF Energy Inc. with those of the Corporation. The total amount of goodwill recognized is not deductible for income tax purposes.

Share consideration was calculated using the trading price of $18.48 per common share.

Since the date of acquisition, revenue of $857,849 and net income of $5,207 are included in the September 30, 2014 consolidated statement of comprehensive income.

**(b) Acquisition of Chevron-branded service stations**

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

The preliminary fair value of the identifiable assets and liabilities of the acquired twelve Chevron-branded service stations are as follows:

| | April 2, 2014 |
|---|---|
| Assets | |
| Inventory | 1,604 |
| Property, plant and equipment (Note 9) | 8,193 |
| | 9,797 |
| Liabilities | |
| Asset retirement obligation (Note 15) | (3,236) |
| | (3,236) |
| | |
| Goodwill arising on acquisition (Note 11) | 9,885 |
| Purchase consideration transferred | 16,446 |
| | |
| Fair value analysis of purchase consideration transferred | |
| Cash paid | 16,446 |
| Total purchase consideration | 16,446 |
| | |
| Analysis of cash flows on acquisition | |
| Cash paid | 16,446 |
| Net cash outflow (included in cash used in investing activities) | 16,446 |

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

The transaction has been accounted for using the acquisition method. The allocation of the purchase price was based on the preliminary fair value of identifiable assets, including assets acquired and liabilities assumed at the effective date of the acquisition, with the excess of the purchase price over the fair value being allocated to goodwill. Given the recent timing of the transaction, Parkland is still assessing the fair value of the net assets acquired. As a result, these amounts are subject to change.

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

Since the date of acquisition, revenue of $19,440 and net income of $1,173 are included in the September 30, 2014 consolidated statement of comprehensive income.

### (c) Acquisition of Pioneer Energy

On September 17, 2014, the Corporation entered into a definitive agreement to acquire substantially all of the assets and select liabilities comprising the Pioneer Energy business ("Pioneer Energy"), domiciled in Ontario, Canada. Subject to the satisfaction of closing conditions and the receipt of customary third party and regulatory consents and approvals, the assets of Pioneer Energy will be purchased for approximately $378 million, which will include approximately $259 million in cash and $119 million in common shares of the Corporation and is expected to close before January 31, 2015. The Corporation is in the process of assessing the purchase price allocation and the final adjusted purchase price will be determined subject to customary post-closing adjustments. With 393 retail gas stations located across Ontario and Manitoba and a recently acquired commercial operation in Ontario, New Brunswick and Nova Scotia, this acquisition is expected to provide Parkland with access to key markets, material supply synergies and an expandable platform for growth in Ontario and Manitoba.

## 22. NET CHANGES IN NON-CASH WORKING CAPITAL

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Accounts receivable | **38,265** | (15,849) | **63,256** | 46,141 |
| Inventories | **598** | (13,664) | **6,760** | (3,218) |
| Income taxes receivable | **6,129** | (659) | **(4,444)** | (659) |
| Prepaid expenses and other | **(2,365)** | (4,522) | **(3,094)** | 920 |
| Accounts payable and accrued liabilities | **(11,045)** | (25,494) | **(38,075)** | 5,302 |
| Income tax payable | **-** | (4,011) | **-** | (20,782) |
| Deferred revenue | **(788)** | (1,632) | **(5,493)** | (8,342) |
| Total net changes in non-cash working capital | **30,794** | (65,831) | **18,910** | 19,362 |

## 23. SEGMENTED INFORMATION

During the first quarter of 2014, Parkland changed its internal organizational structure resulting in the following operating segments based on the nature of their products and services: i) Parkland Retail Fuels, ii) Parkland Wholesale, Supply and Distribution and iii) Parkland Commercial Fuels. The Corporation also reports activities not directly attributable to an operating segment under Corporate. Parkland has changed its segmented information to be in line with its internal reorganization and has amended its prior year segment information to conform to the current year presentation. These segments are defined as follows:

**Parkland Retail Fuels**

Parkland Retail Fuels operates and services a network of retail service stations that serve motorists in Canada and the United States.

Parkland is a retail branded distributor for Esso in British Columbia, Alberta, Saskatchewan, Ontario and the Northwest Territories and a retail branded distributor for Chevron in British Columbia. Parkland also maintains two proprietary brands: Fas Gas Plus and Race Trac. In addition, SPF Energy Inc. maintains the Superpumper brand.

**Parkland Commercial Fuels**

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

**Parkland Wholesale, Supply and Distribution**

Wholesale, Supply and Distribution is responsible for managing Parkland's fuel supply contracts, purchasing fuel from refiners, distribution through third party rail and highway carriers as well as serving wholesale and reseller customers. This segment includes profits from Parkland's February 2013 acquisition of Elbow River Marketing, profits derived through supply management and profits from wholesale fuel sales.

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

Intersegment sales are accounted for at market values and included, for segment reporting, in revenues of the segment making the transfer and expenses of the segment receiving the transfer. Inter-segmental transactions are eliminated upon consolidation.

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

| | Parkland Retail Fuels | | Parkland Commercial Fuels | | Parkland Wholesale, Supply and Distribution | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the three months ended September 30,** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| **Fuel and petroleum product volume (millions of litres)** | 502,492 | 477,447 | 328,686 | 348,509 | 1,501,469 | 936,017 | - | - | 2,332,647 | 1,761,973 |
| **Sales and operating revenue - external and intersegmental** | | | | | | | | | | |
| Fuel and petroleum product revenue | 496,345 | 461,400 | 304,239 | 319,438 | 2,076,314 | 1,756,202 | - | - | 2,876,898 | 2,537,040 |
| Non-fuel revenue | 14,028 | 4,694 | 87,230 | 65,377 | 15,064 | 15,435 | 266 | 90 | 116,588 | 85,596 |
| Total sales and operating revenue - external and intersegmental | 510,373 | 466,094 | 391,469 | 384,815 | 2,091,378 | 1,771,637 | 266 | 90 | 2,993,486 | 2,622,636 |
| Less: intersegment revenues | - | - | (8,036) | (7,798) | (1,079,604) | (1,105,798) | - | - | (1,087,640) | (1,113,596) |
| Sales and operating revenue | 510,373 | 466,094 | 383,433 | 377,017 | 1,011,774 | 665,839 | 266 | 90 | 1,905,846 | 1,509,040 |
| **Cost of sales, excluding depreciation** | | | | | | | | | | |
| Fuel and petroleum product cost of sales | 468,656 | 437,609 | 276,062 | 291,776 | 2,048,876 | 1,716,202 | - | - | 2,793,594 | 2,445,587 |
| Non-fuel costs of sales | 5,691 | - | 69,016 | 50,334 | 7,757 | 13,413 | 215 | (79) | 82,679 | 63,668 |
| Total cost of sales, excluding depreciation | 474,347 | 437,609 | 345,078 | 342,110 | 2,056,633 | 1,729,615 | 215 | (79) | 2,876,273 | 2,509,255 |
| Less: intersegment cost of sales | - | - | (8,036) | (7,798) | (1,079,604) | (1,105,798) | 209 | 621 | (1,087,431) | (1,112,975) |
| Net cost of sales | 474,347 | 437,609 | 337,042 | 334,312 | 977,029 | 623,817 | 424 | 542 | 1,788,842 | 1,396,280 |
| **Adjusted gross profit** | | | | | | | | | | |
| Fuel and petroleum product adjusted gross profit (before risk management) | 27,689 | 23,791 | 28,177 | 27,662 | 27,438 | 40,000 | - | - | 83,304 | 91,453 |
| Realized gain (loss) on risk management activities | - | - | - | - | 226 | (7,075) | - | - | 226 | (7,075) |
| Realized gain (loss) on foreign exchange | - | - | - | - | 588 | (302) | 5 | 20 | 593 | (282) |
| Fuel and petroleum product adjusted gross profit | 27,689 | 23,791 | 28,177 | 27,662 | 28,252 | 32,623 | 5 | 20 | 84,123 | 84,096 |
| Non-fuel adjusted gross profit | 8,337 | 4,694 | 18,214 | 15,043 | 7,307 | 2,022 | (158) | (452) | 33,700 | 21,307 |
| Total adjusted gross profit | 36,026 | 28,485 | 46,391 | 42,705 | 35,559 | 34,645 | (153) | (432) | 117,823 | 105,403 |
| Customer finance income | - | - | (590) | (655) | 160 | 5 | (69) | 61 | (499) | (589) |
| Operating costs | 9,888 | 6,715 | 32,108 | 29,978 | 15,410 | 8,045 | (83) | (609) | 57,323 | 44,129 |
| Marketing, general and administration | 3,851 | 3,128 | 5,688 | 6,211 | 3,648 | 6,009 | 15,836 | 9,574 | 29,023 | 24,922 |
| Realized loss (gain) on risk management activities | - | - | - | - | - | (44) | - | - | - | (44) |
| Less: acquisition costs | - | - | - | - | - | - | (3,261) | (768) | (3,261) | (768) |
| **Adjusted EBITDA** | 22,287 | 18,642 | 9,185 | 7,171 | 16,341 | 20,630 | (12,576) | (8,690) | 35,237 | 37,753 |
| Depreciation and amortization | - | - | - | - | - | - | 18,612 | 13,710 | 18,612 | 13,710 |
| Finance costs | - | - | - | - | - | - | 6,295 | 4,791 | 6,295 | 4,791 |
| Loss (gain) on disposal of property, plant and equipment | - | - | - | - | - | - | (89) | 1,217 | (89) | 1,217 |
| Acquisition costs (1) | - | - | - | - | - | - | 3,261 | 768 | 3,261 | 768 |
| Unrealized (gain) loss from the change in fair value of commodities | - | - | - | - | - | - | (7,053) | (9,521) | (7,053) | (9,521) |
| forward contracts and US dollar forward exchange contracts | - | - | - | - | - | - | - | - | - | - |
| Unrealized (gain) loss on foreign exchange | - | - | - | - | - | - | (1,103) | 597 | (1,103) | 597 |
| **Earnings before income taxes** | - | - | - | - | - | - | - | - | 15,314 | 26,191 |
| **Additions to property, plant and equipment** | 5,257 | 2,719 | 5,146 | 4,523 | 1,571 | 1,215 | 1,019 | 1,470 | 12,993 | 9,927 |

(1) Acquisition costs include direct and indirect costs related to acquisition targets.

| | Parkland Retail Fuels | | Parkland Commercial Fuels | | Parkland Wholesale, Supply and Distribution | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| **For the nine months ended September 30,** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| **Fuel and petroleum product volume (millions of litres)** | 1,377,017 | 1,315,314 | 1,164,976 | 1,092,891 | 3,985,342 | 2,334,262 | - | - | 6,527,335 | 4,742,467 |
| **Sales and operating revenue - external and inter-segmental** | | | | | | | | | | |
| Fuel and petroleum product revenue | 1,376,081 | 1,248,977 | 1,138,319 | 1,002,642 | 6,180,257 | 3,674,248 | - | - | 8,694,657 | 5,925,867 |
| Non-fuel revenue | 38,359 | 13,198 | 256,523 | 209,618 | 59,418 | 41,734 | 854 | 293 | 355,154 | 264,843 |
| Total sales and operating revenue - external and intersegmental | 1,414,440 | 1,262,175 | 1,394,842 | 1,212,260 | 6,239,675 | 3,715,982 | 854 | 293 | 9,049,811 | 6,190,710 |
| Less: inter-segment revenues | - | - | (24,520) | (21,418) | (3,216,028) | (2,104,731) | - | - | (3,240,548) | (2,126,149) |
| Sales and operating revenue | 1,414,440 | 1,262,175 | 1,370,322 | 1,190,842 | 3,023,647 | 1,611,251 | 854 | 293 | 5,809,263 | 4,064,561 |
| **Cost of sales, excluding depreciation** | | | | | | | | | | |
| Fuel and petroleum product cost of sales | 1,305,973 | 1,186,371 | 1,020,951 | 895,290 | 6,063,257 | 3,538,696 | - | - | 8,390,181 | 5,620,357 |
| Non-fuel costs of sales | 15,331 | 2 | 202,096 | 163,632 | 36,273 | 36,408 | 119 | (130) | 253,819 | 199,912 |
| Total cost of sales, excluding depreciation | 1,321,304 | 1,186,373 | 1,223,047 | 1,058,922 | 6,099,530 | 3,575,104 | 119 | (130) | 8,644,000 | 5,820,269 |
| Less: inter-segment cost of sales | - | - | (24,520) | (21,418) | (3,216,028) | (2,104,731) | 548 | 1,179 | (3,240,000) | (2,124,970) |
| Net costs of sales | 1,321,304 | 1,186,373 | 1,198,527 | 1,037,504 | 2,883,502 | 1,470,373 | 667 | 1,049 | 5,404,000 | 3,695,299 |
| **Adjusted gross profit** | | | | | | | | | | |
| Fuel and petroleum product adjusted gross profit (before risk management) | 70,108 | 62,606 | 117,368 | 107,352 | 117,000 | 135,552 | - | - | 304,476 | 305,510 |
| Realized (loss) gain on risk management activities | - | - | - | - | (6,926) | (12,135) | - | - | (6,926) | (12,135) |
| Realized gain (loss) on foreign exchange | - | - | - | - | 913 | 947 | 6 | 1 | 919 | 948 |
| Fuel and petroleum product adjusted gross profit | 70,108 | 62,606 | 117,368 | 107,352 | 110,987 | 124,364 | 6 | 1 | 298,469 | 294,323 |
| Non-fuel adjusted gross profit | 23,028 | 13,196 | 54,427 | 45,986 | 23,145 | 5,326 | 187 | (756) | 100,787 | 63,752 |
| Total adjusted gross profit | 93,136 | 75,802 | 171,795 | 153,338 | 134,132 | 129,690 | 193 | (755) | 399,256 | 358,075 |
| Customer finance income | - | (4) | (1,814) | (1,676) | (72) | (18) | (109) | (91) | (1,995) | (1,789) |
| Operating costs | 28,689 | 19,637 | 106,284 | 94,565 | 48,151 | 16,959 | (428) | (1,157) | 182,696 | 130,004 |
| Marketing, general and administration | 11,036 | 9,665 | 18,915 | 19,507 | 23,959 | 17,950 | 40,410 | 29,942 | 94,320 | 77,064 |
| Gain (loss) on risk management activities | - | - | - | - | - | 17 | (10) | - | (10) | 17 |
| Less: acquisition costs | - | - | - | - | - | - | (7,897) | (4,088) | (7,897) | (4,088) |
| **Adjusted EBITDA** | 53,411 | 46,504 | 48,410 | 40,942 | 62,094 | 94,782 | (31,773) | (25,361) | 132,142 | 156,867 |
| Depreciation and amortization | - | - | - | - | - | - | 57,494 | 41,391 | 57,494 | 41,391 |
| Finance costs | - | - | - | - | - | - | 19,258 | 15,028 | 19,258 | 15,028 |
| Loss on disposal of property, plant and equipment | - | - | - | - | - | - | 1,088 | 1,617 | 1,088 | 1,617 |
| Acquisition related costs (1) | - | - | - | - | - | - | 7,897 | 4,088 | 7,897 | 4,088 |
| Unrealized (gain) loss from the change in fair value commodities | - | - | - | - | - | - | (8,143) | (661) | (8,143) | (661) |
| forward contracts and US dollar forward exchange contracts | - | - | - | - | - | - | - | - | - | - |
| Unrealized gain on foreign exchange | - | - | - | - | - | - | (1,683) | 159 | (1,683) | 159 |
| **Earnings before income taxes** | | | | | | | | | 56,231 | 95,245 |
| **Additions to property, plant and equipment** | 29,641 | 5,145 | 17,584 | 44,363 | 8,288 | 5,992 | 2,836 | 3,288 | 58,349 | 58,788 |

(1) Acquisition costs include direct and indirect costs related to acquisition targets.

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

### Geographic Information

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Revenue from external customers - Canada | **1,568,286** | 1,509,040 | **4,951,414** | 4,064,561 |
| Revenue from external customers - United States | **337,560** | - | **857,849** | - |
| Sales and operating revenue | **1,905,846** | 1,509,040 | **5,809,263** | 4,064,561 |

| | As at September 30, 2014 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Consolidated** |
| Property, plant and equipment | **324,332** | **31,856** | **356,188** |
| Intangible assets | **112,582** | **49,239** | **161,821** |
| Goodwill | **142,377** | **35,969** | **178,346** |
| Total | **579,291** | **117,064** | **696,355** |

| | As at December 31, 2013 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Consolidated** |
| Property, plant and equipment | 319,344 | - | 319,344 |
| Intangible assets | 127,011 | - | 127,011 |
| Goodwill | 132,493 | - | 132,493 |
| Total | 578,848 | - | 578,848 |

## 24. RELATED PARTY TRANSACTIONS

Parkland receives legal services from Bennett Jones LLP where a director of the Corporation is a partner. The amounts related to fees expensed for the nine months ended September 30, 2014 was $1,865 (September 30, 2013 – $1,972), and the amounts payable as at September 30, 2014 was $201 (September 30, 2013 – $54).

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.

## 25. CONTINGENCIES AND COMMITMENTS

### (a) Legal

The Corporation is involved in various legal claims and legal notices arising in the ordinary course of business. Parkland believes it has made adequate provisions for such legal claims.

The Corporation recognized $9,800 for legal claims in the fourth quarter of 2013, primarily for the mitigation of contamination at sites where the Corporation has had operations and where the amounts were more likely than not to be incurred. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Parkland's financial position, results of operations, or cash flows. No additional amounts have been recorded during the nine months ended September 30, 2014.

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

**(b) Commitments**

Parkland has operating leases primarily for buildings, offices, rail tank cars, warehouses, equipment and land. These operating leases expire at various dates over the next 32 years. The minimum payments required under these commitments are as follows:

| | **2014** | **2015** | **2016** | **2017** | **2018** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| Obligations under operating leases | 16,936 | 32,989 | 28,007 | 15,665 | 21,126 | 32,187 | 146,909 |

## 26. SEASONALITY

Parkland's Retail Fuels segment typically experiences higher volumes during the second and third quarters of the year, due to consumer purchases during the summer months. The Commercial Fuels segment typically experiences higher volumes during the first and fourth quarters of the year, due to higher heating fuel and propane demand during the colder months.

## 27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the presentation adopted in the current period.