Parkland
FUEL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

# 2018





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DEAR FELLOW
# SHAREHOLDERS

As I write this letter, it is with a great sense of pride that I share Parkland's 2018 success story and am amazed by how our business continues to change. We continue to evolve the enterprise in scale, capability and opportunity, but as always remain focused on our core strategy to grow organically, build and maintain a supply advantage and acquire and integrate effectively.

In 2018, Parkland truly came together as one team and delivered exemplary results with record Adjusted EBITDA of $887M. We made great progress integrating our two major 2017 acquisitions (Ultramar and Chevron) and increased our Adjusted EBITDA guidance to a run-rate of $1 billion in 2020. Our team is focused on building our culture around our values of **Safety, Integrity, Community and Respect** and our entrepreneurial behaviours to **Build** collaborative teams, **Own** our mandate, **Lead** by embracing change and continuous improvement, and **Deliver** exceptional results through great customer service **(BOLD)**.

We have made significant progress on our safety performance with our Total Recordable Injury Frequency (TRIF) at an all-time low of 1.62. We did however have some incidents, including the loss of a cherished member of our Farstad Oil and Parkland family, Rick Cantone. Rick was loved and respected, and his loss is still felt greatly by all who knew him. We wish to extend our sincere condolences to Rick's family, friends and colleagues as they continue to grieve. This significant loss reminds us how important it is to ensure that our safety culture is consistent across the business and we continue to build towards this each day.

We have expanded outside of Canada and the United States in late 2018 with our decision to purchase 75% of Sol, opening up our operations into the Caribbean. Even with all this growth, we will keep our local focus by organizing regionally. Each region will manage their own bottom line while also being tied together by our corporate-wide Supply and Marketing expertise. Collectively, we believe that this will ensure we continue to provide customers with the local service to which they are accustomed and offer the advantage of scale Parkland provides.

In Canada, our marketing team delivered a banner year. We achieved industry leading Same Store Sales Growth in our company-owned retail sites as we continued to execute on our rollout of the On The Run / Marché Express Brand, piloted our Journie Rewards loyalty program and gained traction on our private label offer 59th Street Food Company. My favourite 59th Street Food snack is the chocolate covered peanuts; I encourage you to drop by one of our On The Run / Marché Express stores, buy some gas and try out 59th Street Food snacks. Our supply team, which now includes the Burnaby Refinery, continues to demonstrate our ability to create an industry leading supply position. Our propane business gained market share in both our delivery and wholesale businesses. In 2019, we will continue to leverage our Canadian footprint and scale in both retail and commercial markets as well as in our supply business.



In the US, we gained traction on our growth strategy. Under Doug Haugh's leadership, we doubled our US business through acquisitions and organic growth. Notable acquisitions include Rhinehart Oil, Missouri Valley Petroleum and BradCo. We now have an expanded platform to continue to add highly accretive tuck-ins to our business. Our retail site count has increased to 41 company sites and 222 dealer sites, and our volume has increased to 1 BL annually. We continue to see plenty of opportunity to grow both organically and through acquisition in our focus markets. The US remains a fragmented market, and I believe Parkland can add value through a disciplined and thoughtful acquisition strategy.

As I mentioned above, we announced in late 2018 a strategic growth opportunity through the acquisition of 75% of Sol, the Caribbean's largest independent fuel marketer. We are excited to partner with the Simpson family to grow our presence in the Caribbean and leverage the scale this new business adds across the organization. Sol provides Parkland with exposure to Gulf Coast Supply, which expands our footprint across North America and extends our company-wide supply advantage. I am excited to see what Pierre Magnan and his team can deliver with these assets. In early 2019, we welcomed the Sol team to Parkland and look forward to continuing to support them in building a successful business.

I often get asked to comment on the impact of the transition to a low carbon energy economy on Parkland and how we are innovating to stay relevant. We continue to make strides to take advantage of opportunities that present themselves through this change. We continue to build our position as a large reseller of ethanol and biodiesel and we recently launched a carbon credit trading desk which in a matter of months has started to contribute positively. Our team in Burnaby, in conjunction with the Province of British Columbia, has successfully conducted trial runs co-processing canola and tallow. We believe this is industry leading in North America, and helps us to refine low carbon gasoline, diesel and jet fuel, eliminating the need to import expensive low carbon products. Our continued investment in our non-fuel convenience business will ensure that we are less reliant on fuel margins and have the strongest sites in the market in the event of gasoline demand decline. We continue to monitor and learn from our charging station pilot program to see how we can further position ourselves for success as the energy mix changes. This is a forward-looking organization and we spend every dollar prudently and effectively with long-term returns in mind.

In 2018, we continued to build our senior team talent. Ryan Krogmeier joins us from Chevron to take over leadership of our Supply division, and Stephanie McDonald joins us from Lafarge to head our People and Culture team. Both join us at an opportune time as we expand internationally and need to enhance our platform to support a larger, more complex organization.

Parkland is well positioned to further demonstrate strong growth in 2019. I would like to thank the amazing Parkland team, many of whom are shareholders, for their continued commitment and dedication to serving our customers and successfully growing our business in 2019. If you are not a shareholder, I welcome you to join us on our Journey.

**Bob Espey**
President and CEO

# Parkland at a Glance

Parkland Fuel Corporation ("Parkland") is one of the fastest growing independent marketers of fuel and petroleum products in the Americas and a leading convenience store operator. Parkland serves customers through three channels: Retail, Commercial and Wholesale, and optimizes its fuel supply across these channels by operating the Burnaby Refinery and leveraging a growing portfolio of supply relationships and storage infrastructure. Parkland provides trusted and locally relevant fuel brands and convenience store offerings, including On the Run / Marché Express, in the communities it serves.

Parkland creates value for shareholders by focusing on its proven strategy of growing organically, realizing a strong supply advantage, acquiring prudently and integrating successfully. At the core of our strategy are our people as well as our values of safety, integrity, community and respect, which are embraced across our organization.

Parkland is listed on the Toronto Stock Exchange and trades under the symbol PKI. We operated through four operating segments in 2018: Retail, Commercial, Supply, and Parkland USA.

TMX PKI

For more information, visit www.parkland.ca.

Parkland.ca

**PARKLAND IS THE**

**#1 Fuel Retailer***

by site count in Canada

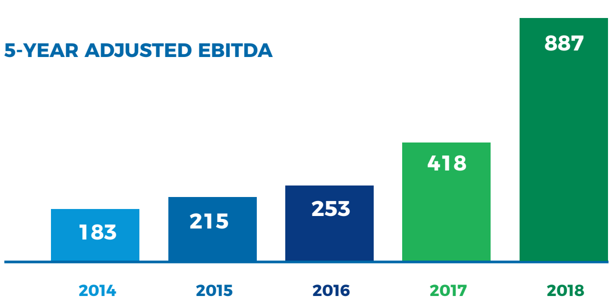
## Our Mission

Great people working together to be the partner of choice for our customers and suppliers

# Our 2018 Results

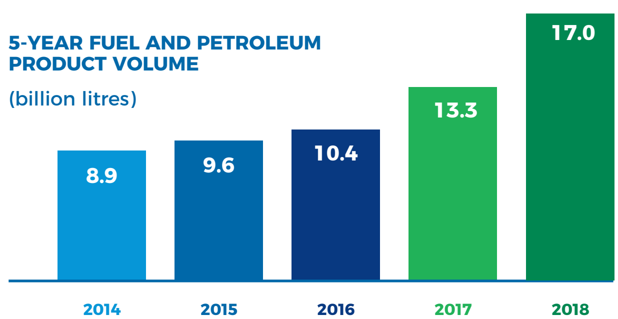
| | | | |
|---|---|---|---|
| $285 | 44% | 4.4 | 2% |
| **Q4 2018 ADJUSTED EBITDA** | **GROWTH IN Q4 2018 ADJUSTED EBITDA VS. Q4 2017** | **BILLION LITRES OF FUEL AND PETROLEUM PRODUCT VOLUME IN Q4 2018** | **DECLINE IN Q4 2018 FUEL AND PETROLEUM PRODUCT VOLUME VS. Q4 2017** |
| $887 | 112% | 17.0 | 27% |
| **2018 ADJUSTED EBITDA** | **GROWTH IN 2018 ADJUSTED EBITDA VS. 2017** | **BILLION LITRES OF FUEL AND PETROLEUM PRODUCT VOLUME IN 2018** | **GROWTH IN 2018 FUEL AND PETROLEUM PRODUCT VOLUME VS. 2017** |

**5-YEAR ADJUSTED EBITDA**




**5-YEAR FUEL AND PETROLEUM PRODUCT VOLUME**

(billion litres)




All numbers are in millions of Canadian dollars, unless otherwise stated.

* Kent Group Ltd.'s National Retail Petroleum Site Census 2017.

# 2018 in Review

2018 Q1

Successful execution of the Burnaby Refinery Turnaround reinforced Parkland's strong supply advantage

Parkland's monthly dividend increased from $0.0962 per share to $0.0978 per share

$0.0978

NEW DIVIDEND

Parkland opened three "Flagship" On the Run / Marché Express stores with our refreshed store concept

Adjusted EBITDA for Q1 2018 was $83M higher than Q1 2017

+119%

ADJUSTED EBITDA

+361%

ADJUSTED EBITDA

Adjusted EBITDA for Q2 2018 was $195M higher than Q2 2017

LES ALIMENTS 59E RUE 59TH STREET FOOD CO.

Launched new private label confectionery and salty snack product categories for 59th Street Food Co.

Entered into a pilot program to enable electric vehicle charging at some locations

Ultramar

Completed the conversion of Ultramar's ERP(1) system and exited the Ultramar Acquisition TSA(2)

2018 Q2

(1) ERP: enterprise resource planning

(2) TSA: transitional services agreement

# Q3 2018


Achieved an 11th consecutive quarter of positive company C-Store SSSG

Completed the acquisition of Rhinehart Oil Co.

Completed the conversion of the ERP system used in the Retail and Commercial segments of the Chevron Acquisition

+18%

Delivered 18% more litres of fuel and petroleum products than in Q3 2017

Announced the acquisition of 75% of Sol Investments Limited ("Sol"), the largest Independent fuel marketer in the Caribbean. The acquisition was successfully closed on January 8, 2019

Announced collaboration with and investment in Filld, as well as launch of Filld's mobile fueling service in British Columbia

+112%

**EBITDA**

Achieved a record $887M of Adjusted EBITDA for the year


Welcomed Stephanie McDonald, our new SVP People & Culture, and Ryan Krogmeier, our new SVP Supply, Trading and Refining to Parkland

# Q4 2018

# Fuelling Canadians, Coast to Coast

## Retail

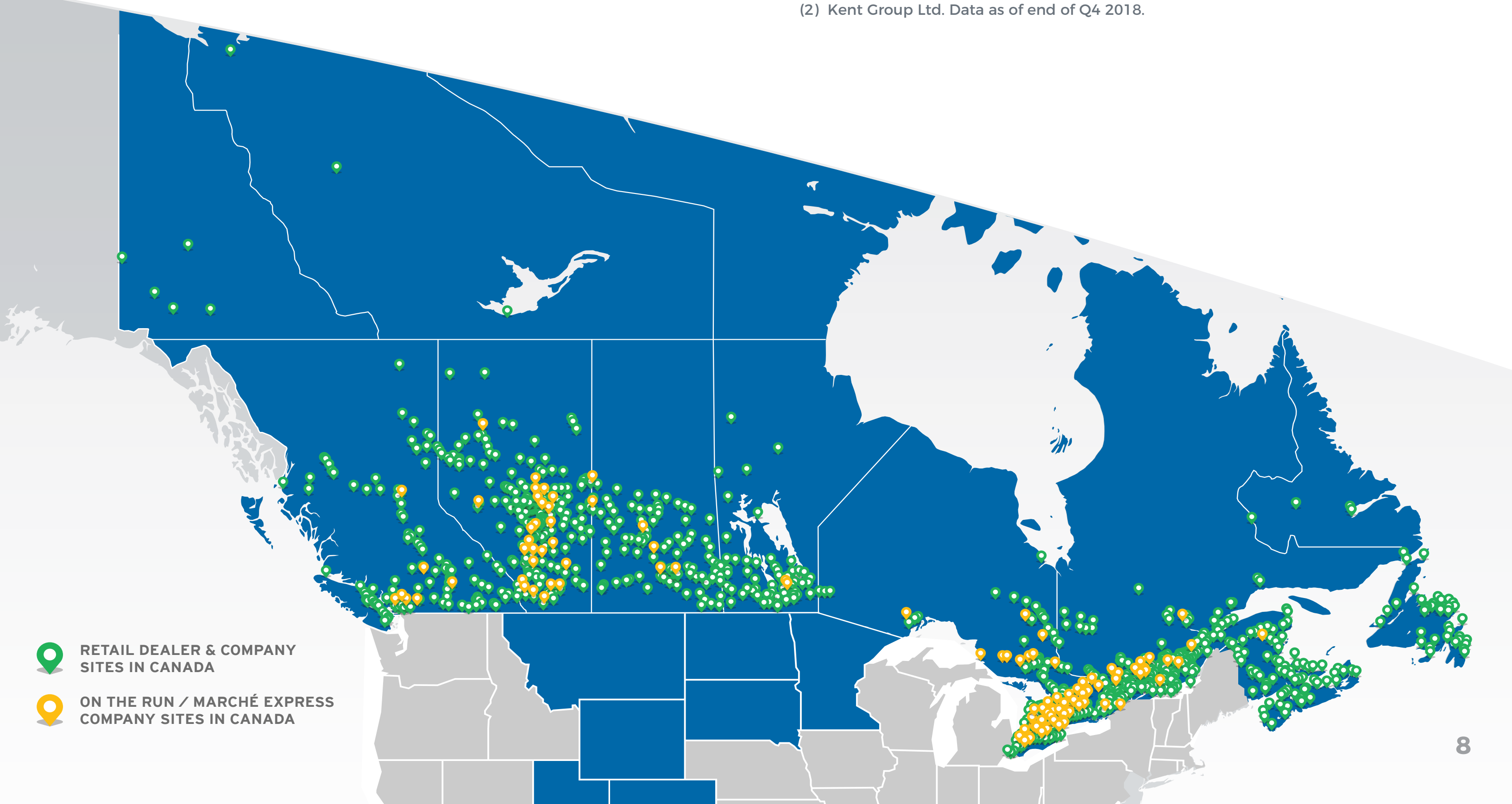
Parkland Retail supplies and supports a network of 1,855 retail gas stations in Canada. Parkland operates under six key retail fuel brands: Ultramar, Esso, Fas Gas Plus, Chevron, Pioneer, and Race Trac. In addition, Parkland operates a leading convenience store brand, On the Run / Marché Express, as well as other convenience store brands that will be migrated over time to the On the Run / Marché Express brand where appropriate. Parkland's multi-brand strategy provides a robust offering to satisfy many fuel market segments.

**FUEL MARGINS** + **CONVENIENCE OFFERINGS INCLUDING PRIVATE LABEL** = **RETAIL VALUE PROPOSITION**

| ~1 in 6 | 1,855 | 1,238 | 617 | 13.5% | 15.0% | ~200M |
|---|---|---|---|---|---|---|
| GAS STATIONS IN CANADA OWNED OR SUPPLIED BY PARKLAND (1) | CANADIAN RETAIL SITES | DEALER SITES IN CANADA | COMPANY SITES IN CANADA | GASOLINE MARKET SHARE IN CANADA (2) | DIESEL MARKET SHARE IN CANADA (2) | TRANSACTIONS IN 2018 |

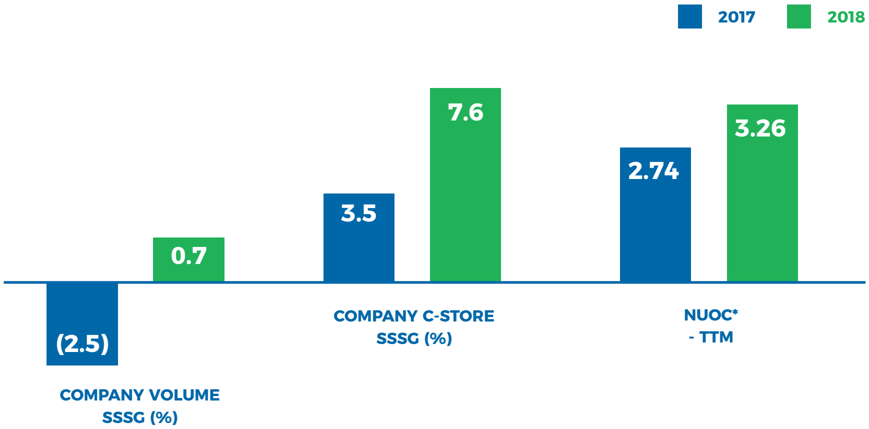
(1) Kent Group Ltd.'s National Retail Petroleum Site Census 2017.

(2) Kent Group Ltd. Data as of end of Q4 2018.






# Key Performance Indicators




* For this metric, a reduction from 2017 to 2018 is considered an improvement. However, NUOC was higher in 2018 primarily due to the Acquisitions which have different operating models with higher NUOC as described on page 32.

| | |
|---|---|
| TTM: | trailing-twelve-month |
| SSSG: | same-store sales growth |
| NUOC: | net unit operating costs |

# Retail and Convenience Store Brands

# Delivering Excellence to Local Homes & Businesses

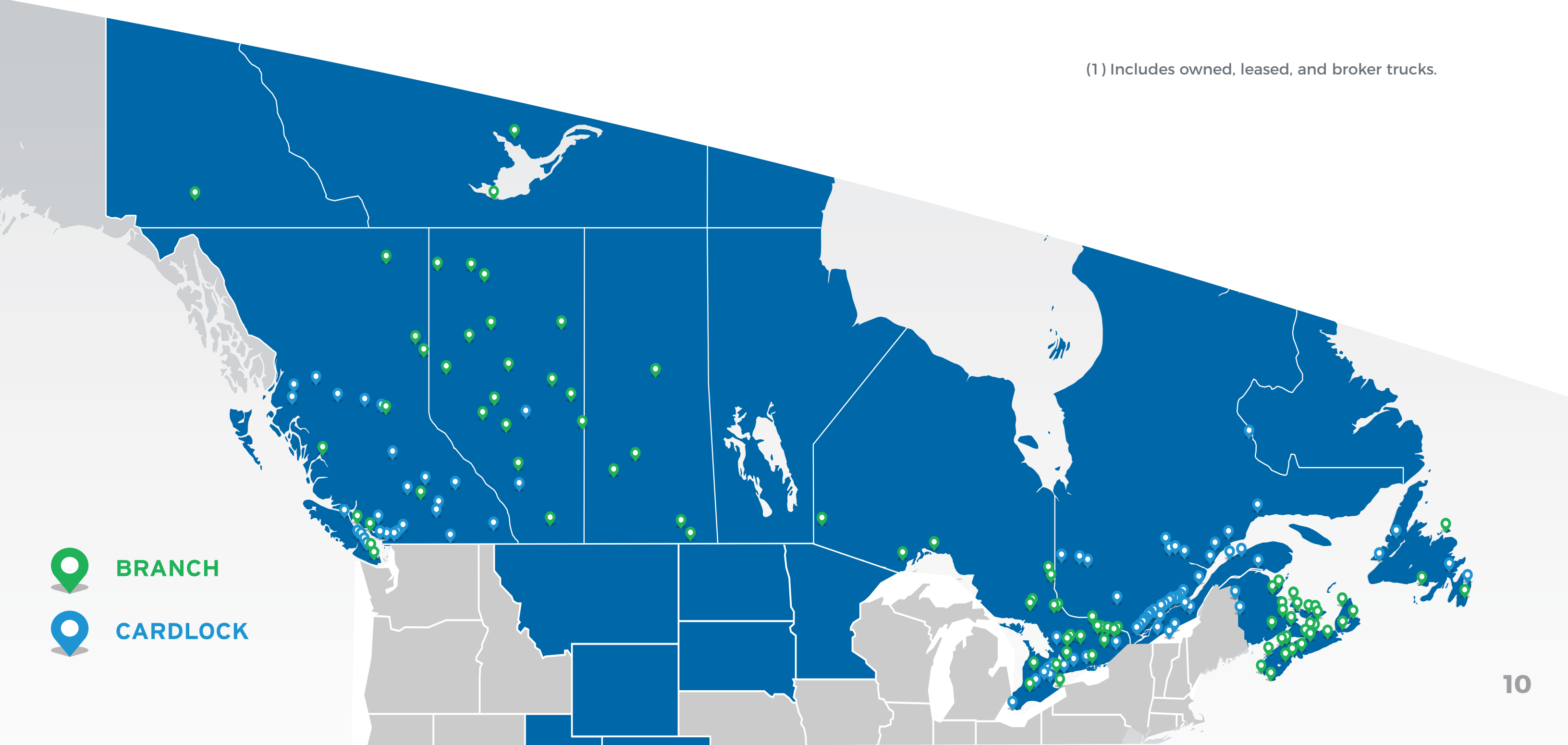
# Commercial

Parkland Commercial delivers bulk fuel, bulk and cylinder exchange propane, heating oil, lubricants and other related products and services to commercial, industrial and residential customers in Canada through an extensive delivery network. Commercial also has an extensive cardlock network. Parkland uses a variety of regionally relevant trade names, service marks and trademarks in the businesses that are considered important and valuable in marketing its products. The family of brands in this segment includes Ultramar, Bluewave Energy, Pipeline Commercial, Chevron and Sparlings Propane. Parkland's Commercial customer base is diverse, supplying a broad cross-section of industries across Canada including oil and gas, construction, mining, forestry, fishing and transportation. Parkland also sells propane and heating oil to residential customers.

**STRONG REGIONAL PRESENCE AND LEADING BRANDS** + **EXTENSIVE DELIVERY NETWORK** + **DIVERSIFIED CUSTOMER OFFERING** = **COMMERCIAL VALUE PROPOSITION**

| ~300 | ~82,000 | ~670 | 260,000+ |
|---|---|---|---|
| BRANCHES & CARDLOCKS | PROPANE TANKS | FLEET TRUCKS IN USE [1] | CUSTOMERS |

(1) Includes owned, leased, and broker trucks.





# Key Performance Indicators


* For these metrics, a reduction from 2017 to 2018 is considered an improvement.

# Offerings

DIESEL

PROPANE

HEATING OIL

LUBRICANTS

# Brands

Ultramar

Chevron

Pipeline Commercial

bluewave energy

sparlings

# Supply

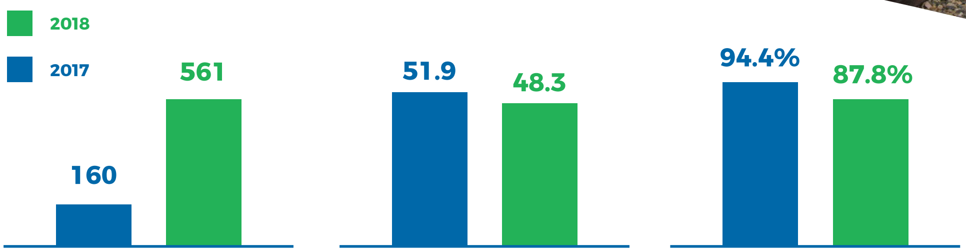
# Dependable Partner of Choice for Our Suppliers and Customers

Parkland's Supply segment optimizes fuel supply by operating the Burnaby Refinery, contracting and purchasing fuel from other refiners and suppliers, distributing through rail and highway carriers, storing fuel in owned and leased facilities, serving wholesale and reseller customers in North America, and producing and selling aviation fuel to airlines operating out of the Vancouver International Airport. Supply serves internal Parkland operating segments as well as external customers and markets products via the Parkland, Les Pétroles Parkland, Elbow River Marketing and Chevron brands. Major sales categories are: gasoline and diesel; liquid petroleum gas ("LPG"), which includes propane and butane; and other fuel and petroleum products, which include crude oil, aviation fuel, asphalt, fuel oils, gas oils, ethanol and biodiesel.

**REFINING MARGINS** + **SUPPLY OPTIONALITY** + **CAPTURE OF MARKET INEFFICIENCIES** = **SUPPLY VALUE PROPOSITION**

1,800+

LEASED RAIL CARS




ADJUSTED EBITDA

Q4 CRUDE THROUGHPUT (000'S BPD*)

* Barrels per day

Q4 REFINERY UTILIZATION

# Offerings

- GASOLINE
- DIESEL
- LIQUID PETROLEUM GAS
- CRUDE OIL
- AVIATION FUEL
- ASPHALT

# Brands

Parkland FUEL CORPORATION

ELBOW RIVER

Chevron

LES PÉTROLES Parkland

# Platform for Growth

# Parkland USA

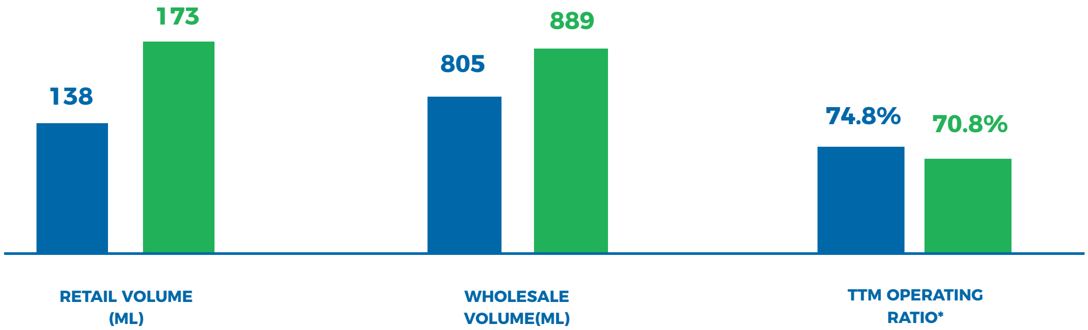
Parkland USA supports a network of gas stations and delivers bulk fuel, lubricants and other related products and services to customers throughout Arizona, Colorado, Minnesota, Montana, New Mexico, North Dakota, South Dakota, Utah and Wyoming. Parkland USA is a platform for growth in the United States and provides Parkland export opportunities for products from western Canada. Brands in this segment include Farstad Oil, Superpumper, Rhinehart Oil, and Harts. Parkland USA operates and generates profits from the following channels: Wholesale, Retail, and Lubricants.

**EXPORT OPPORTUNITIES FOR CANADIAN BUSINESS** + **PLATFORM FOR GROWTH IN THE US** + **LARGE FLEET OF DELIVERY ASSETS** + **DIVERSIFIED CUSTOMER OFFERING** = **PARKLAND USA VALUE PROPOSITION**

**222** DEALERS

**227** TRUCKS THAT DELIVER WHOLESALE FUELS AND LUBRICANTS

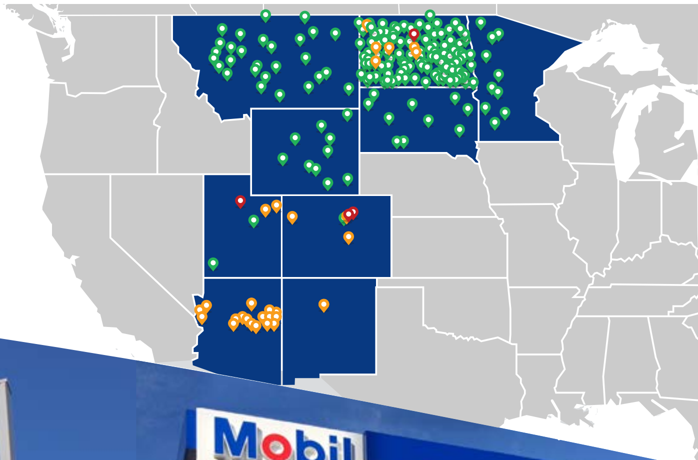
**41** COMPANY SITES




2017 2018

* For this metric, a reduction from 2017 to 2018 is considered an improvement.

DISTRIBUTION RETAIL COMMERCIAL





# Corporate

## Driving Future Strategic Growth

**SCALABLE BACK OFFICE FOR GROWTH** + **STRONG CONTROL ENVIRONMENT** + **INTEGRATION AND CONTINUOUS IMPROVEMENT** = **CORPORATE VALUE PROPOSITION**

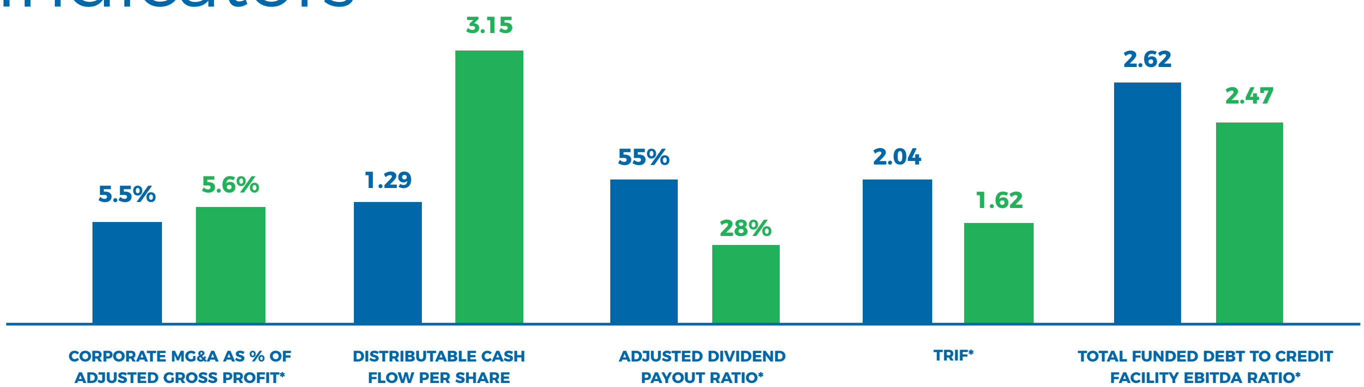
**$4.30**
ADJUSTED DISTRIBUTABLE CASH FLOW PER SHARE

**$159**
GROSS DIVIDENDS PAID

**88%**
ELIGIBLE CANADIAN PARKLAND EMPLOYEES WHO ARE SHAREHOLDERS OF PARKLAND

**$489**
AVAILABLE CASH, CASH EQUIVALENTS AND UNUSED CREDIT FACILITIES

## Key Performance Indicators




* For these metrics, a reduction from 2017 to 2018 is considered an improvement.

TRIF: Total recordable injury frequency

## TSA Exit

Successful conversion of the ERP system used in Ultramar, and the Retail and Commercial segments of the Chevron Acquisition to Parkland's ERP system and exit of Ultramar's Acquisition TSA

# Building Parkland International

On January 8, 2019, Parkland closed the acquisition of 75% of the shares of Sol Investments Limited ("Sol"), the largest independent fuel marketer in the Caribbean. With operations in 23 countries, Sol has an integrated supply chain backed by an extensive distribution network, fortress assets, a premier brand portfolio and an exceptional team. The acquisition extends Parkland's supply reach globally and builds on Parkland's supply advantage strategy, will provide Parkland with a significant North American and Caribbean growth platform for future strategic initiatives, as well as access to key markets and comprehensive supply infrastructure in the Caribbean, Central America, and northern coast of South America.

**STRONG SUPPLY RELIABILITY, SECURITY AND OPTIONALITY**

**ACCESS TO OPTIMAL SUPPLY INFRASTRUCTURE ASSETS, INCLUDING 32 IMPORT TERMINALS AND 10 CHARTER SHIPS**

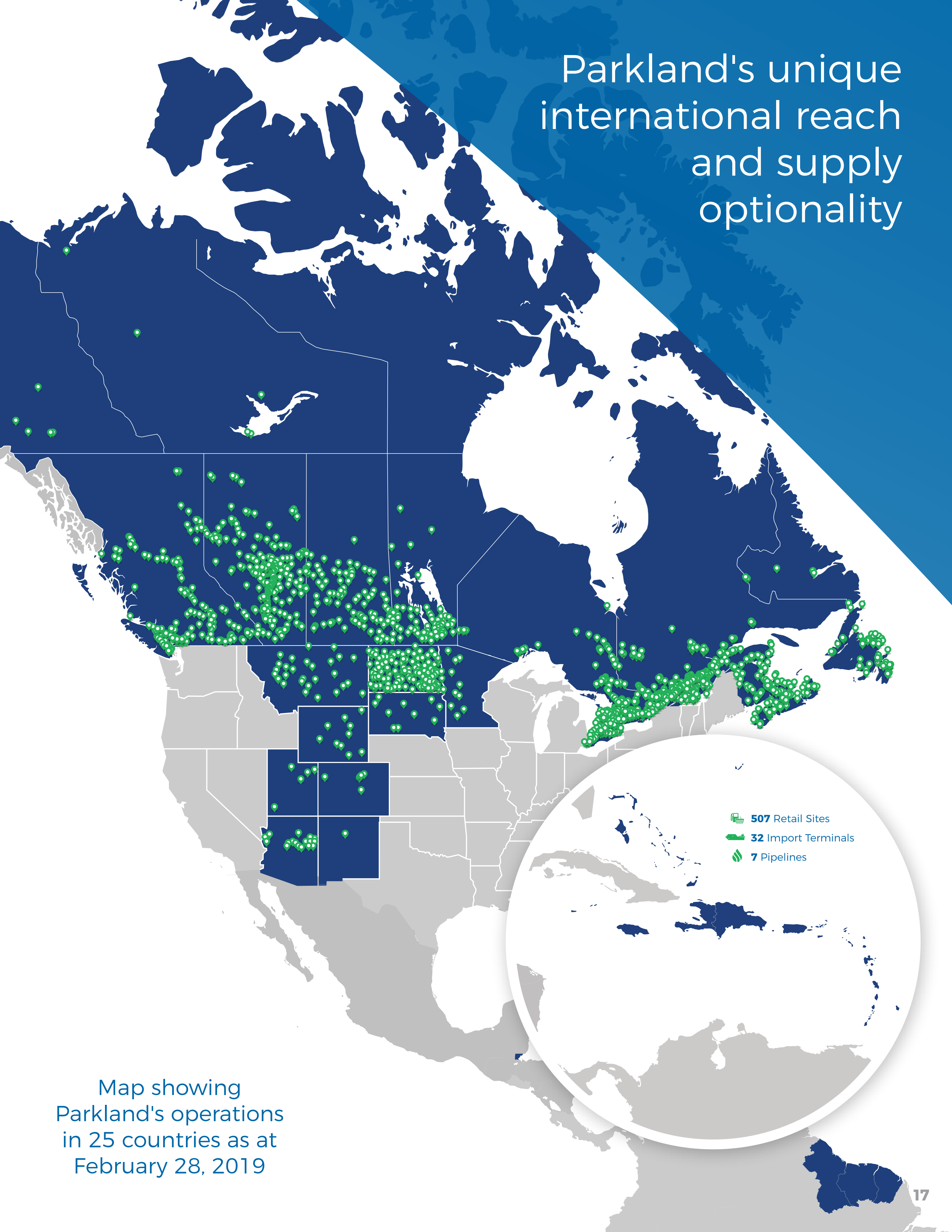
**13 AVIATION FUEL FACILITIES**

**SOL SUPPLIES AND MARKETS FUEL ACROSS 23 COUNTRIES IN CENTRAL AMERICA AND NORTHERN COAST OF SOUTH AMERICA**

**507 RETAIL SITES (INCLUDING 216 COMPANY SITES) WITH LEADING REGIONAL RETAIL BRANDS**

**ROBUST PORTFOLIO OF COMMERCIAL AND INDUSTRIAL CUSTOMERS ACROSS A SET OF DIVERSE INDUSTRIES**


# Parkland's unique international reach and supply optionality




Map showing Parkland's operations in 25 countries as at February 28, 2019

# Board of Directors


Jim Pantelidis


Deborah Stein


Domenic Pilla


Lisa Colnett


John Bechtold


David Spencer


Steven Richardson


Tim Hogarth

# Senior Leadership Team


Bob Espey
**PRESIDENT & CEO**


Michael McMillan
**SVP & CHIEF FINANCIAL OFFICER**


Pierre Magnan
**PRESIDENT, PARKLAND INTERNATIONAL**


Doug Haugh
**PRESIDENT, PARKLAND UNITED STATES**


Peter Kilty
**SVP RETAIL OPERATIONS CANADA**


Ryan Krogmeier
**SVP SUPPLY, TRADING & REFINING**


Ian White
**SVP STRATEGIC MARKETING & INNOVATION**

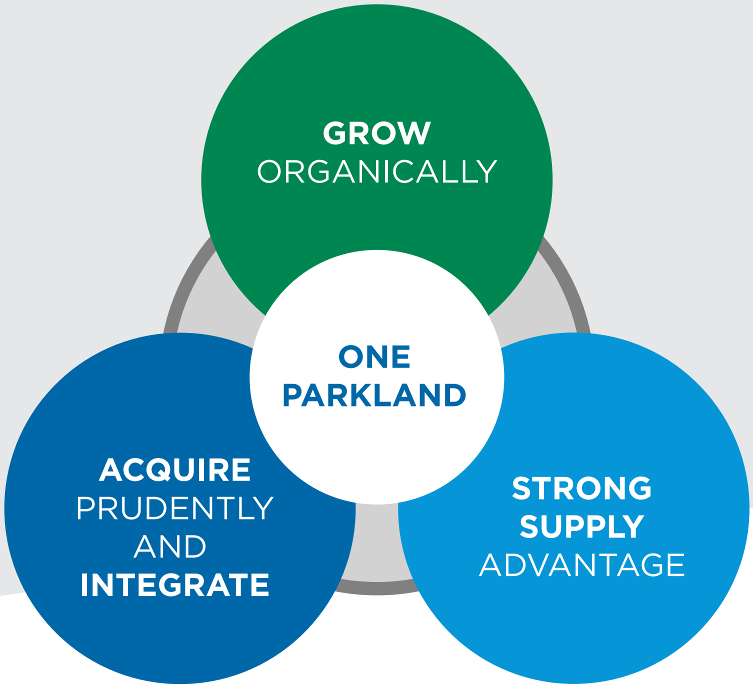

Christy Elliott
**VP, SENIOR GENERAL COUNSEL & CORPORATE SECRETARY**


Darren Smart
**SVP STRATEGY & CORPORATE DEVELOPMENT**


Stephanie McDonald
**SVP PEOPLE & CULTURE**

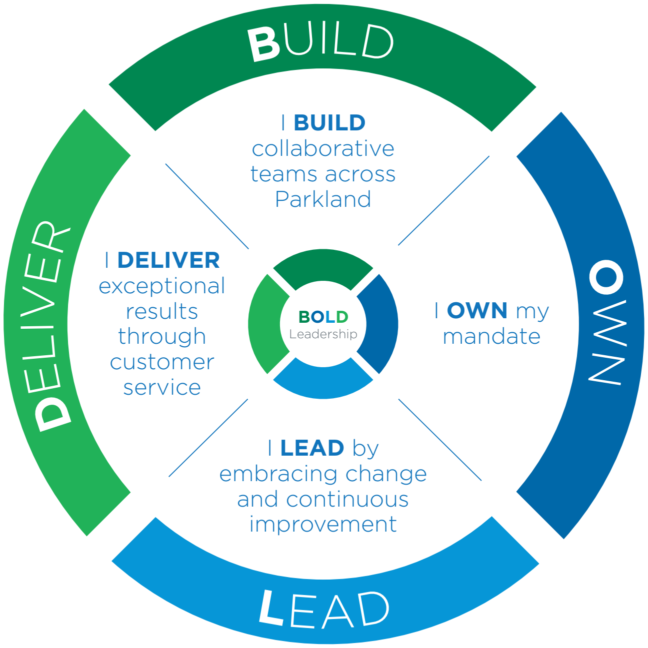
# Strategy, Values & Behaviours

We build a supply, logistical and marketing advantage that cannot be replicated. Our strategic progress is measured by KPIs disclosed in the Annual MD&A, and aligns with management short- and long-term compensation.




## Our 4 Values


## Our 4 Behaviours



## Health, Safety & Environment

Parkland Fuel Corporation is committed to protecting our employees, customers and the environment. The integration of the “Drive to Zero” and the “Stop, Think, Act" programs will help workers use their judgement and experience on the front line to reduce safety incidents at Parkland down to zero.

## Together, We Will:

Ensure our employees have the knowledge and skills necessary to perform their work safely

Measure and track our performance

Continually improve and reduce injuries and incidents in the workplace

## Community Involvement

Parkland Fuel Corporation supports the community through our Parkland Pledge Program. In 2018, our team donated to over 900 organizations including Make-a-Wish Canada, West Coast Kids Cancer Foundation, La Fondation CST, Canadian Cancer Society, and the Canadian Red Cross. Parklanders contributed over 7,600 volunteer hours to support the communities in which we operate. In 2018, through Parkland Pledge and other programs, Parkland donated over $2M to charities and community organizations.

## Basis of presentation

This Management's Discussion and Analysis ("MD&A") for Parkland Fuel Corporation ("Parkland", "we", "our" or "us") dated February 28, 2019 should be read in conjunction with our December 31, 2018 audited consolidated financial statements (the "Annual Consolidated Financial Statements"). The Annual Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), using the accounting policies described in Note 3 of the Annual Consolidated Financial Statements. The MD&A is presented in millions of Canadian dollars unless otherwise noted. Additional information about Parkland, including quarterly and annual reports, and the annual information form for the fiscal year ended December 31, 2017 dated March 9, 2018 along with any subsequently filed annual information form ("Annual Information Form"), is available online at www.sedar.com and Parkland's website, www.parkland.ca.

#### Non-GAAP financial measures and key performance indicators

Parkland has identified several key operating performance measures that management believes provide meaningful information in assessing Parkland's underlying performance. Readers are cautioned that these measures may not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to Section 13 of this MD&A for a list of defined non-GAAP financial measures and key performance indicators ("KPIs").

#### Adjusted EBITDA and adjusted gross profit

Adjusted EBITDA and adjusted gross profit, including fuel and petroleum product adjusted gross profit, are measures of segment profit as reported in Note 24 of the Annual Consolidated Financial Statements. Refer to Section 13 of this MD&A for more information on these measures of segment profit.

#### Risks and forward-looking information

Parkland's financial and operational performance is potentially affected by a number of factors including, but not limited to, the factors described within the Forward-Looking Information section and Risk Factors section of this MD&A and the Annual Information Form. The information within these sections of this MD&A is based on Parkland's current expectations, estimates, projections and assumptions that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking information contained herein is subject to a number of risks and uncertainties beyond Parkland's control including, without limitation, changes in market, competition, governmental or regulatory developments, and general economic conditions and other factors under Section 9 of this MD&A and the Risk Factors section of the Annual Information Form. Readers are cautioned that such forward-looking information contained in this MD&A should not be used for purposes other than for which it is disclosed herein and are cautioned not to place undue reliance on these forward-looking statements. Refer to Section 14 of this MD&A for further details.

# 1. PARKLAND OVERVIEW

## Who we are

Parkland Fuel Corporation ("Parkland") is one of the fastest growing independent marketers of fuel and petroleum products in the Americas and a leading convenience store operator. Parkland serves customers through three channels: Retail, Commercial and Wholesale, and optimizes its fuel supply across these channels by operating the Burnaby Refinery and leveraging a growing portfolio of supply relationships and storage infrastructure. Parkland provides trusted and locally relevant fuel brands and convenience store offerings, including On the Run / Marché Express, in the communities it serves.

Parkland creates value for shareholders by focusing on its proven strategy of growing organically, realizing a strong supply advantage, acquiring prudently and integrating successfully. At the core of our strategy are our people as well as our values of safety, integrity, community and respect, which are embraced across our organization.

Parkland is listed on the Toronto Stock Exchange and trades under the symbol PKI. We operated through four operating segments in 2018: Retail, Commercial, Supply, and Parkland USA.

## Our mission

Great people working together to be the partner of choice for our customers and suppliers.

## Our four strategic imperatives

Parkland is committed to delivering competitive and sustainable returns to shareholders by being the partner of choice for our suppliers and our customers. Parkland's strategy consists of the following four strategic imperatives:

### 1. Grow organically

Parkland drives organic growth by innovatively pursuing opportunities to increase gross profit, selling great products under highly valued brands, while delivering great customer experiences, building loyalty, expanding the reach of our private label offerings, and continuously increasing efficiencies. Parkland effectively deploys growth capital, operates safely and efficiently, and is a responsible steward of the environment. We believe these activities enable us to grow organically in all fuel marketing channels and convenience stores. Our annual Adjusted EBITDA strategic organic growth target is 3-5%.

### 2. Strong supply advantage

Parkland achieves a supply advantage by safely and reliably operating the Burnaby Refinery, leveraging market inefficiencies and being a partner of choice for refiners. We work hard to efficiently and consistently purchase large volumes of the full range of products produced by refineries in the geographic markets in which we operate. We sell our products through a variety of marketing channels, including Company retail gas stations, commercial diesel cardlocks, and commercial fuel, propane and lubricant delivery branches. We also use our Dealer retail network and wholesale activities to supplement our volumes and to optimize our supply advantage.

### 3. Acquire prudently and integrate

Parkland is a disciplined acquirer that actively seeks complementary scale and scope opportunities. We build and leverage relationships with the objective of being the buyer of choice for vendors, and effectively integrate acquisitions to drive operational efficiency, create synergies and generate shareholder value with support from our strong supply advantage. As the fuel distribution market remains significantly fragmented, we are well-positioned to be a leader in its consolidation given potential supply and cost synergies as well as our experience across all fuel marketing channels. We believe that our combination of acquisitive and organic growth enables us to earn an attractive return for our shareholders.

### 4. Enable our teams to succeed

People are at the core of our strategic imperatives. We are committed to enabling our teams to succeed by recruiting great, high-calibre people, fostering engagement, building an industry-leading people culture and investing in technology. We champion the Parkland BOLD leadership model by empowering our employees to build, own, lead and deliver on their mandates. Our employees also embrace our Parkland values of safety, integrity, community and respect, which are at the core of everything we do. At Parkland, our employees are our most important resource and by investing in our people, we are directly contributing to the success of our organization.

## 2. FINANCIAL AND OPERATING SUMMARY

| ($ millions, unless otherwise noted) | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| **Financial Summary** | | | | | | |
| Sales and operating revenue[(6)] | **3,526** | 3,429 | 1,740 | **14,442** | 9,560 | 6,266 |
| Adjusted gross profit[(1)] | **587** | 469 | 197 | **1,995** | 1,094 | 708 |
| Adjusted EBITDA[(1)] | **285** | 198 | 77 | **887** | 418 | 253 |
| Net earnings | **77** | 49 | 3 | **206** | 82 | 48 |
| Per share – basic | **0.58** | 0.37 | 0.03 | **1.56** | 0.70 | 0.50 |
| Per share – diluted | **0.57** | 0.37 | 0.03 | **1.53** | 0.69 | 0.49 |
| Distributable cash flow[(2)] | **151** | 45 | 29 | **416** | 151 | 120 |
| Per share[(2)(3)] | **1.14** | 0.33 | 0.30 | **3.15** | 1.29 | 1.26 |
| Adjusted distributable cash flow[(2)] | **175** | 102 | 43 | **568** | 251 | 153 |
| Per share[(2)(3)] | **1.32** | 0.78 | 0.45 | **4.30** | 2.15 | 1.60 |
| Dividends | **41** | 39 | 28 | **159** | 138 | 110 |
| Dividends declared per share outstanding | **0.2934** | 0.2886 | 0.2835 | **1.1704** | 1.1510 | 1.1250 |
| Dividend payout ratio[(2)] | **27%** | 89% | 94% | **38%** | 91% | 91% |
| Adjusted dividend payout ratio[(2)] | **23%** | 38% | 64% | **28%** | 55% | 71% |
| Total assets | **5,661** | 5,412 | 2,562 | **5,661** | 5,412 | 2,562 |
| Total long-term liabilities | **2,750** | 2,469 | 692 | **2,750** | 2,469 | 692 |
| Shares outstanding (millions) | **134** | 131 | 96 | **134** | 131 | 96 |
| Weighted average number of common shares (millions) | **133** | 131 | 96 | **132** | 117 | 95 |
| **Operating Summary** | | | | | | |
| Fuel and petroleum product volume (million litres)[(4)] | **4,354** | 4,432 | 2,783 | **16,978** | 13,333 | 10,415 |
| Fuel and petroleum product adjusted gross profit[(1)] (cpl)[(5)]: | | | | | | |
| Retail | **7.69** | 8.95 | 5.39 | **7.83** | 7.17 | 5.48 |
| Commercial[(6)] | **9.02** | 8.59 | 11.47 | **8.56** | 9.25 | 11.09 |
| Parkland USA | **4.97** | 3.48 | 3.62 | **3.95** | 3.32 | 3.46 |

(1) Measure of segment profit. See Section 13 of this MD&A.

(2) Non-GAAP financial measure. See Section 13 of this MD&A.

(3) Calculated using the weighted average number of common shares.

(4) Fuel and petroleum product volume represents external volumes only. Intersegment volumes, including volumes produced by the Burnaby Refinery and transferred to the Retail and Commercial segments, are excluded from this reported volume.

(5) "cpl" stands for cents-per-litre and is a key performance indicator. See Section 13 of this MD&A.

(6) For comparative purposes, sales and operating revenue and fuel and petroleum product adjusted gross profit (cpl) for the three months ended December 31, 2017 were restated for a reclassification from Commercial to Supply, reflecting a change in customer service delivery structure in 2018.

# 3. PERFORMANCE OVERVIEW

## 2018 Highlights

Parkland achieved record fourth quarter Adjusted EBITDA of $285 million and net earnings of $77 million compared to Adjusted EBITDA of $198 million and net earnings of $49 million for the fourth quarter of 2017. This exceptional performance was primarily driven by strong Supply results led by strong refining crack spreads and continued efforts in executing Parkland's supply strategy, partially offset by softer margin performance in Retail. As the Ultramar Acquisition[1] closed on June 28, 2017 and the Chevron Acquisition[1] closed on October 1, 2017 (collectively, the "Acquisitions"), the fourth quarter of 2017 includes the full benefit of contributions from the Acquisitions. Parkland achieved record Adjusted EBITDA of $887 million and net earnings of $206 million in 2018, more than double the $418 million and $82 million achieved in 2017 respectively. The strong annual results were mainly driven by a full year of contribution from the Acquisitions, in addition to exceptional performance in Supply and synergies from integrations. As a result of Parkland's strong Adjusted EBITDA, the adjusted dividend payout ratio[2] for the three months and year ended December 31, 2018 was 23% and 28% respectively (2017 – 38% and 55% respectively), adjusted distributable cash flow per share[2] was $1.32 and $4.30 respectively (2017 – $0.78 and $2.15 respectively), and Total Funded Debt to Credit Facility EBITDA ratio[2] for 2018 was 2.47 (2017 – 2.62). Furthermore, Parkland performed above expectations on Company C-Store SSSG[3], which was 10.3% across Canada in the fourth quarter of 2018 (2017 – 3.3%) and 7.6% for the full 2018 year (2017 - 3.5%), a non-fuel key performance indicator ("KPI") of the Retail segment.

## Grow

### Financial Highlights

- Parkland achieved a record fourth quarter Adjusted EBITDA of $285 million in 2018, representing 44% growth compared to $198 million achieved for the same period in 2017. Similarly, Parkland achieved record Adjusted EBITDA of $887 million and net earnings of $206 million in 2018, more than double the $418 million and $82 million, respectively, achieved in 2017. This growth was primarily driven by exceptional results in Supply and a full year of contribution from the Acquisitions.
- Parkland delivered 17 billion litres of fuel and petroleum product volume in 2018 compared to 13 billion litres in 2017. The additional volume was primarily driven by incremental business from the Acquisitions.
- Sales and operating revenue increased to $3,526 million in the fourth quarter of 2018 from $3,429 million in the same period of 2017 due to higher fuel commodity prices. Sales and operating revenue increased to $14,442 million for 2018 from $9,560 million in 2017 due to a combination of increased volume from the Acquisitions and higher fuel and commodity prices.
- Parkland also saw Company Volume SSSG growth of 3.5% for the fourth quarter of 2018 and 0.7% for the year ended December 31, 2018, increasing our market share and demonstrating our commitment to grow organically.

### Strategic Highlights

- Retail achieved Company C-Store same-store sales growth ("SSSG") of 10.3% across Canada in the fourth quarter of 2018, marking the 12th consecutive quarter of positive Company C-Store SSSG at Parkland. This strong Company C-Store SSSG was driven by ongoing marketing programs, rollout of our proprietary private label brand, new product launches and continued focus on optimizing operations and improving customer focus that resulted in higher forecourt to backcourt conversion rates. Parkland also saw growth in sustainable higher-margin categories such as beverages, snacks and confectionery.
- Parkland continued the successful rollout of the national refreshed On the Run / Marché Express store concepts, delivering to date 78 "Retrofit" sites, where existing locations are upgraded to the new store concept. In addition, Parkland delivered to date 12 "Flagship" sites, which are new full-offer facilities constructed at "new-to-industry" or "replacement" sites. The new On the Run / Marché Express store concepts elevate the customer experience and support the shift to higher margin categories while growing basket size and improving forecourt to backcourt conversion rates with results to date exceeding expectations.
- Parkland's proprietary private label brand, 59th Street Food Co., developed in 2017 and successfully launched across numerous locations, continues to perform well with plans on track to double the selection of product offerings to grow our C-Store product mix in 2019.

(1) See page 25 for discussion of the Chevron Acquisition and Ultramar Acquisition.
(2) Non-GAAP financial measure. See Section 13 of this MD&A.
(3) Key performance indicator. See Sections 4 and 13 of this MD&A.

- Parkland is piloting its new customer loyalty program, Journie Rewards, in two markets. The new loyalty program is designed to expand a loyal customer base, attract new customers and build recurring fuel and merchandise sales.
- Parkland has started the process of one-time conversions of Ultramar company-owned, company-operated ("COCO") sites to company-owned, retailer-operated ("CORO") sites (the "CORO Conversion"), which are expected to lower costs, realize synergies, and provide Parkland with higher returns. The completion of the CORO Conversion is pacing ahead of plan.
- Commercial is currently embarking on the optimization of its brand portfolio in various geographies. Certain legacy operations, particularly in eastern Canada, were successfully rebranded to Ultramar, enabling Parkland to drive future growth and sustained profitability under one aligned customer value proposition.

## Supply

### Financial Highlights

- Supply's Adjusted EBITDA for the three months and year ended December 31, 2018 were $199 million and $561 million, respectively (2017 - $94 million and $160 million). These exceptional results were driven by contributions from the Chevron Acquisition, strong refining crack spreads, profitable supply sourcing initiatives, improved supply economics, and continued efforts in executing Parkland's supply advantage strategy. Due to the rapid price decrease of both crude feedstock and refined products in the fourth quarter, Parkland also benefited from gains of $49 million and $20 million for the three months and year ended December 31, 2018, respectively, from Intermediation Facility Derivatives relating to the Burnaby Refinery which flow through cost of purchases.
- Supply's external fuel and petroleum product volume decreased 151 million litres for the fourth quarter of 2018 compared to the same period in 2017, reflecting market conditions and rail delivery backlogs, which have subsequently cleared. On an annual basis, Supply's external fuel and petroleum product volume increased 836 million litres for 2018, driven by the Acquisitions.

### Strategic Highlights

- The Burnaby Refinery achieved refinery utilization of 87.8% in the fourth quarter of 2018, marking the second successful full quarter of operations since the completion of the Burnaby Refinery's major maintenance event (the "Turnaround") in the first week of April 2018.
- In cooperation with the province of British Columbia, Parkland has successfully tested the processing of certain bio-based feedstocks at the Burnaby Refinery. This proven capability allows for increased production of lower carbon-intensity fuels, demonstrating Parkland's commitment and leadership in low carbon initiatives.

## Acquire

### Financial Highlights

- **Ultramar Acquisition and Chevron Acquisition synergies update**

  Parkland acquired the majority of the Canadian business and assets of CST Brands, Inc. on June 28, 2017 for a purchase price of $978 million (the "Ultramar Acquisition") and all outstanding shares of Chevron Canada R & M ULC on October 1, 2017 for a purchase price of $1,684 million (the "Chevron Acquisition"). These two acquisitions enhance Parkland's network coverage across Canada and added significant supply and marketing infrastructure.

  The businesses acquired as part of the Acquisitions have performed very well since their respective closing dates, as demonstrated by strong results in 2018 and the successful Burnaby Refinery Turnaround. Acquisition synergy targets continue to pace above the original plan, reinforcing Parkland's ability and commitment to acquire prudently and integrate successfully. As at December 31, 2018, Parkland completed initiatives that are expected to result in Annual Synergies[1] on the Acquisitions of approximately $100 million per year. Parkland expects that Annual Synergies on the Acquisitions will reach approximately $180 million per year[1] by the end of 2020. Parkland continues to implement its comprehensive plan to integrate the acquired businesses to drive synergies and future growth.

[1] "Annual Synergies" is a forecasted annualized run-rate measure and is considered to be forward-looking information. See Sections 13 and 14 of this MD&A.

- **Rhinehart Acquisition**

  On August 27, 2018, Parkland completed the acquisition of all outstanding shares of Rhinehart Oil Co., Inc. and its affiliates (collectively, "Rhinehart") for a preliminary purchase price of $176 million (the "Rhinehart Acquisition"). Rhinehart markets and distributes fuels, lubricants and specialty products in Utah, Colorado, Wyoming and New Mexico. The businesses acquired include 10 distribution facilities, 9 retail sites and 4 cardlock facilities. The Rhinehart Acquisition doubled the size of Parkland USA and provided Parkland with talented staff and scalable infrastructure to establish a Regional Operations Centre ("ROC") in the Rocky Mountain tributary. This ROC will be the platform that enables organic growth and future acquisitions across the region, leveraging substantial existing capacity within current rail hubs, bulk storage terminals, and warehouses.

### Strategic Highlights

- **Sol Transaction**

  On January 8, 2019, Parkland successfully completed the acquisition of 75% of the outstanding shares of Sol Investments Limited ("Sol") (the "Sol Transaction"). With operations in 23 countries, Sol is the largest independent fuel marketer in the Caribbean and was a privately held company owned by the Simpson Group through Sol Limited.

  Sol has an integrated supply chain backed by an extensive distribution network, fortress assets, a premier brand portfolio and an exceptional team. The businesses and assets included in the Sol Transaction are predominantly located in the Caribbean and northern coast of South America and consist of: (i) Sol's retail businesses, which include 216 company-owned or company-leased sites and 291 dealer-owned and dealer-operated sites under brands such as Esso, Shell and Sol; (ii) Sol's supply and distribution businesses, which include owned or leased infrastructure assets including 32 import terminals, 7 pipelines, 3 marine berths and 10 charter ships; (iii) Sol's commercial and industrial businesses, which supply gasoline, diesel, fuel oil, propane and lubricants, and (iv) Sol's aviation businesses, which operate in 13 countries. The Sol Transaction, which extends Parkland's supply reach globally and builds on Parkland's supply advantage strategy, will provide Parkland a significant North American and Caribbean growth platform for future strategic initiatives, as well as access to key markets in 23 countries and comprehensive supply infrastructure in the Caribbean and northern coast of South America.

  The previously announced purchase price of approximately $1,570 million was estimated based on the $42.8023 per share as per the business combination agreement dated October 9, 2018. In accordance with IFRS, the preliminary purchase consideration for the Sol Transaction is calculated as $1,459 million, consisting of initial cash consideration of $1,048 million net of estimated cash assumed, fair value of share consideration of $423 million (representing 12.2 million common shares calculated using the trading price of $34.56 per share as at January 8, 2019), and gain on Sol Transaction Hedge of $12 million. The issuance of common shares resulted in Sol Limited owning 9.9% of the outstanding shares of Parkland immediately after closing. The cash consideration of the Sol Transaction was primarily financed through the Amended Credit Facility (see Section 8 of this MD&A). Parkland is currently in the process of assessing the purchase price allocation and expects to include a preliminary version in its March 31, 2019 interim condensed consolidated financial statements.The preliminary purchase price is subject to change as a result of customary post-closing activities and will be finalized no later than one year from the acquisition date.

  The Sol Transaction includes a non-expiring put right for Sol Limited to sell and a call right for Parkland to acquire the remaining outstanding shares of Sol at a proportionate purchase price based on Sol's trailing-twelve-month Adjusted EBITDA multiplied by 8.5 and other adjustments calculated pursuant to the agreement. Parkland will have the non-expiring right to refuse the exercise by Sol Limited of its put right on up to two occasions.

- **Ultramar Acquisition and Chevron Acquisition integration update**

  Parkland completed the conversion of Ultramar's enterprise resource planning ("ERP") system to Parkland's ERP system and exited the Ultramar Acquisition transitional services agreement ("TSA") in April 2018 (the "Ultramar TSA"). Parkland also successfully completed the conversion of the ERP system used in the Retail and Commercial segments of the Chevron Acquisition to Parkland's ERP system in the third quarter of 2018 ("Phase I of the Chevron TSA") and is progressing towards the exit of the Chevron Acquisition TSA in the first half of 2019 ("Phase II of the Chevron TSA").

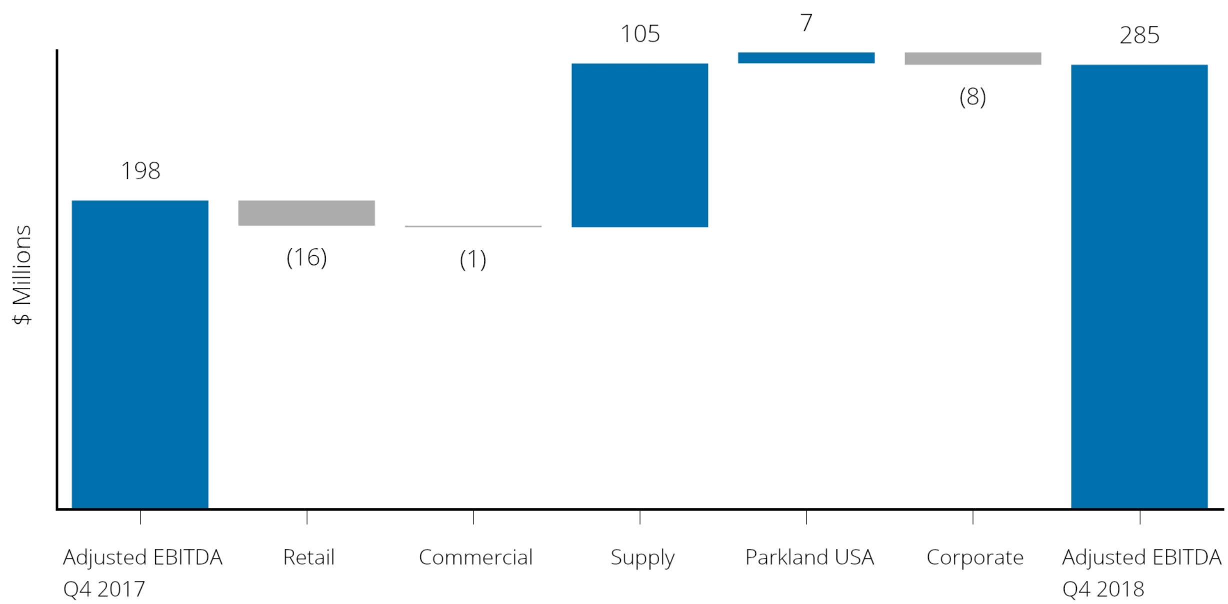
## Enable our teams to succeed

### Strategic Highlights

- Parkland is committed to ensuring a safe working environment that protects our employees, customers and the environment. Compared to 2017, 2018 saw reductions in our lost time injury frequency from 0.23 to 0.20 and in our total recordable injury frequency from 2.04 to 1.62. Parkland is committed to reducing injuries and incidents in our workplaces and at customer sites, actively involving our employees in enhancing, tracking and measuring our performance, and training of our employees to ensure they have the knowledge and skills necessary to perform their work safely.
- Parkland completed the ERP system conversion for the Ultramar TSA and Phase I of the Chevron TSA during the second and third quarters of 2018 to empower the team and drive synergies to create shareholder value,
- Parkland has continued to build our "One Parkland Team" culture focused on integrity, respect, safety and community. In 2018, Parkland made significant strides in integrating the Ultramar and Chevron teams into the Parkland family while driving commercial intensity as evidenced by our financial results.

## Q4 2018 vs. Q4 2017 overall performance

### Adjusted EBITDA growth by segment



### Adjusted EBITDA to net earnings

| For the three months ended December 31 ($ millions) | 2018 | 2017 | Change | % |
|---|---|---|---|---|
| Adjusted EBITDA[(1)] | | | | |
| Retail | **78** | 94 | (16) | (17)% |
| Commercial | **27** | 28 | (1) | (4)% |
| Supply | **199** | 94 | 105 | 112 % |
| Parkland USA | **11** | 4 | 7 | 175 % |
| Corporate | **(30)** | (22) | (8) | 36 % |
| | **285** | 198 | 87 | 44 % |
| Less: | | | | |
| Depreciation and amortization | **79** | 69 | 10 | 14 % |
| Finance costs | | | | |
| Interest on long-term debt | **36** | 32 | 4 | 13 % |
| Change in fair value of Redemption Options | **21** | 10 | 11 | 110 % |
| Other finance costs[(2)] | **5** | 6 | (1) | (17)% |
| | **62** | 48 | 14 | 29 % |
| Loss on asset disposals | **–** | 3 | (3) | (100)% |
| Acquisition, integration and other costs | **24** | 41 | (17) | (41)% |
| (Gain) loss on risk management and other derivatives - unrealized | **(24)** | 6 | (30) | (500)% |
| Loss (gain) on foreign exchange - unrealized | **47** | (1) | 48 | (4,800)% |
| Other adjusting items[(3)] | **(16)** | 9 | (25) | (278)% |
| Income tax expense (recovery) | **36** | (26) | 62 | (238)% |
| Net earnings | **77** | 49 | 28 | 57 % |

(1) Measure of segment profit. See Section 13 of this MD&A.

(2) Includes interest income, amortization, accretion and other finance costs. See Note 21 of the Annual Consolidated Financial Statements.

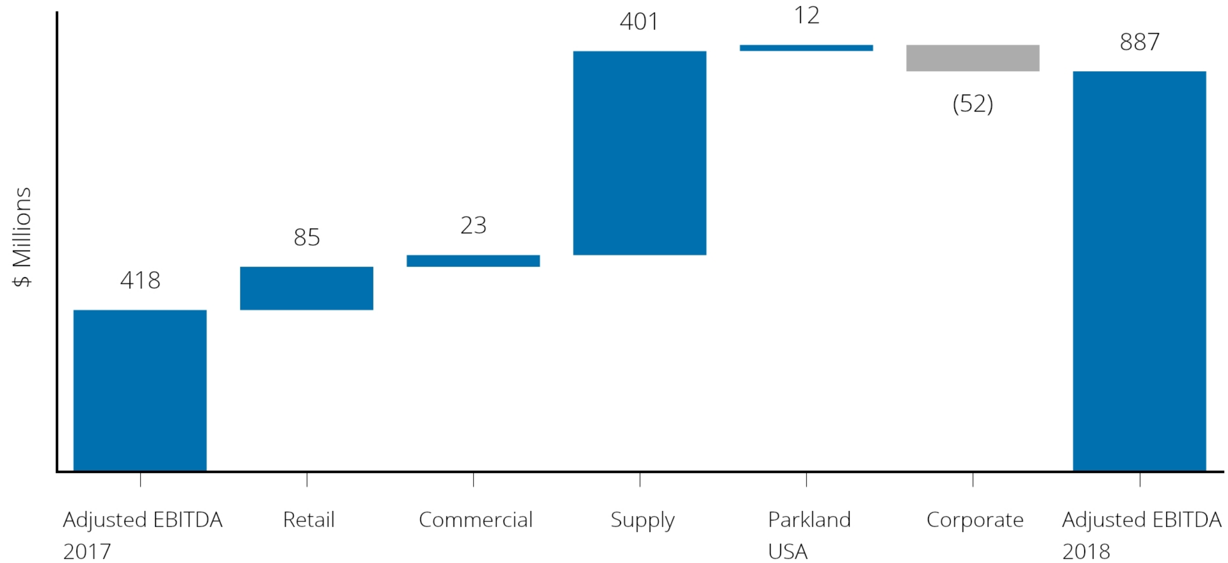
(3) Other adjusting items include $13 million unrealized gain (2017 – $9 million unrealized loss) on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and $3 million realized gain (2017 – nil) on foreign exchange relating to refinancing activities.

- Parkland achieved record fourth quarter Adjusted EBITDA of $285 million, representing growth of $87 million driven mainly by exceptional results in Supply. Supply grew $105 million as a result of strong refining crack spreads, profitable supply sourcing initiatives, improved supply economics, and continued efforts in executing Parkland's supply strategy. Due to the rapid price decrease of both crude feedstock and refined products in the fourth quarter, Parkland also benefited from a gain of $49 million from Intermediation Facility Derivatives relating to the Burnaby Refinery, which flows through cost of purchases. This exceptional growth was partially offset by $16 million lower Adjusted EBITDA in Retail driven by softer margins, relatively flat performance in Commercial, and $8 million higher costs in Corporate to support the larger integrated business and execute future growth strategies. As the Ultramar Acquisition closed on June 28, 2017 and the Chevron Acquisition closed on October 1, 2017, the fourth quarter of 2017 includes the full benefit of contributions from the Acquisitions.
- Depreciation and amortization increased $10 million, driven by higher property, plant and equipment and intangible asset balances from the Chevron Acquisition and the completion of the Burnaby Refinery Turnaround.
- Finance costs increased $14 million in the fourth quarter of 2018, driven primarily by: (i) $4 million increase in interest on long-term debt largely due to the March 23, 2018 private placement of 6.00% US Senior Notes, as well as the November 21, 2018 private placement of 6.50% Senior Notes to support the Sol Transaction, (ii) $11 million increase in the non-cash loss recognized on the change in fair value of the Redemption Options of the Senior Notes, driven by higher market interest rates and an observable increase in credit adjusted spreads used to value the options. The fair value of the Redemption Options embedded derivatives represents the non-cash value of the options that allow Parkland to redeem the Senior Notes at any time prior to their maturity and considers the redemption premium, credit spread, risk-free yield curve and other factors that are driven by changing debt market conditions.
- Acquisition, integration and other costs decreased $17 million due to lower costs for the ERP system conversion for the Ultramar TSA and Phase I of the Chevron TSA during the second and third quarters of 2018. Furthermore, lower acquisition costs were incurred in the fourth quarter of 2018 relating to the Sol Transaction and Rhinehart Acquisition compared to the Chevron Acquisition in the fourth quarter of 2017.
- The $47 million unrealized loss on foreign exchange was driven by the translation impact of the 6.00% US Senior Notes and USD-denominated Intermediation Facility (see Section 8 of this MD&A) in a weaker Canadian dollar environment. During the first quarter of 2019, Parkland designated the 6.00% US Senior Notes as a net investment hedge on the Sol Transaction.

- Income tax expense increased $62 million for the fourth quarter of 2018 due to higher taxable earnings. In 2017, the $26 million income tax recovery was primarily attributable to deferred tax recovery on the tax attribute of purchased goodwill relating to a past acquisition and for changes in US tax rates.
- As a result of the above main drivers, net earnings were $77 million for the fourth quarter of 2018 compared to $49 million in the fourth quarter of 2017.

## 2018 vs. 2017 Highlights

### Adjusted EBITDA growth by segment



### Adjusted EBITDA to net earnings

| For the years ended December 31 ($ millions) | 2018 | 2017 | Change | % |
|---|---|---|---|---|
| Adjusted EBITDA[1] | | | | |
| Retail | **316** | 231 | 85 | 37 % |
| Commercial | **93** | 70 | 23 | 33 % |
| Supply | **561** | 160 | 401 | 251 % |
| Parkland USA | **28** | 16 | 12 | 75 % |
| Corporate | **(111)** | (59) | (52) | 88 % |
| | **887** | 418 | 469 | 112 % |
| Less: | | | | |
| Depreciation and amortization | **301** | 166 | 135 | 81 % |
| Finance costs | | | | |
| Interest on long-term debt | **130** | 84 | 46 | 55 % |
| Change in fair value of Redemption Options | **24** | (9) | 33 | (367)% |
| Other finance costs[2] | **17** | 15 | 2 | 13 % |
| | **171** | 90 | 81 | 90 % |
| Loss on asset disposals | **23** | 2 | 21 | 1,050 % |
| Acquisition, integration and other costs | **77** | 84 | (7) | (8)% |
| Gain on risk management and other derivatives - unrealized | **(3)** | (2) | (1) | 50 % |
| Loss on foreign exchange - unrealized | **53** | 1 | 52 | 5,200 % |
| Other adjusting items[3] | **(12)** | 9 | (21) | (233)% |
| Income tax expense (recovery) | **71** | (14) | 85 | (607)% |
| Net earnings | **206** | 82 | 124 | 151 % |

[1] Measure of segment profit. See Section 13 of this MD&A.
[2] Includes interest income, amortization, accretion and other finance costs. See Note 21 of the Annual Consolidated Financial Statements.
[3] Other adjusting items include a $15 million unrealized gain (2017 – $9 million unrealized loss) on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and a $3 million realized loss (2017 – nil) on foreign exchange relating to refinancing activities.

- Parkland achieved record annual Adjusted EBITDA of $887 million in 2018 compared to $418 million in 2017. Retail grew $85 million and Commercial grew $23 million primarily as a result of the Acquisitions. Supply grew $401 million primarily as a result of the Chevron Acquisition, strong refining crack spreads, profitable supply sourcing initiatives, improved supply economics, and continued efforts in executing Parkland's supply advantage strategy. Due to the rapid price decrease of both crude feedstock and refined products in the fourth quarter, Parkland also benefited from a gain of $20 million from Intermediation Facility Derivatives relating to the Burnaby Refinery, which flows through cost of purchases. Parkland USA grew $12 million primarily as a result of organic growth as well as incremental Adjusted EBITDA from the Rhinehart Acquisition. As expected, overall growth was partially offset by higher costs in Corporate to support the larger integrated business and execute future growth strategies. While 2018 includes a full year of results from the Acquisitions, 2017 includes approximately two quarters of results from the Ultramar Acquisition starting June 28, 2017 and one quarter of results from the Chevron Acquisition starting October 1, 2017.
- Depreciation and amortization increased $135 million, driven by higher property, plant and equipment and intangible asset balances from the Acquisitions and completion of the Burnaby Refinery Turnaround.
- Finance costs in 2018 increased $81 million primarily due to: (i) a $46 million increase in interest on long-term debt as a result of the March 23, 2018 private placement of 6.00% US Senior Notes, the November 21, 2018 private placement of 6.50% Senior Notes, and incremental borrowings to fund the Chevron Acquisition, and (ii) a $33 million increase in non-cash loss recognized on the change in fair value of the Redemption Options of the Senior Notes, driven by a $24 million non-cash loss as a result of higher market interest rates and an observable increase in credit adjusted spreads used to value the Redemption Options.
- Loss on asset disposals was $23 million primarily due to disposals related to the Burnaby Refinery Turnaround, which was completed in April 2018.
- Acquisition, integration and other costs in 2018 decreased $7 million due to lower costs for the ERP system conversion for the Ultramar TSA and Phase I of the Chevron TSA during the second and third quarters of 2018. Furthermore, lower acquisition costs were incurred in 2018 relating to the Sol Transaction and Rhinehart Acquisition compared to the Ultramar Acquisition and Chevron Acquisition in 2017.

- The $53 million unrealized loss on foreign exchange was primarily driven by the translation impact of the 6.00% US Senior Notes and USD-denominated Intermediation Facility in a weaker Canadian dollar environment.
- Income tax expense increased $85 million due to higher taxable earnings. In 2017, the $14 million income tax recovery was primarily attributable to deferred tax recovery on the tax attribute of purchased goodwill relating to a past acquisition and for changes in US tax rates.
- As a result of the above main drivers, net earnings in 2018 were $206 million compared to $82 million for the same period in 2017.

# 4. SEGMENT RESULTS

Refer to Note 24 of the Annual Consolidated Financial Statements for a description of Parkland's segments.

## Retail

### Overview

Parkland Retail (formerly Retail Fuels) supplies and supports a network of 1,855 retail gas stations in Canada. Parkland operates under six key retail fuel brands: Ultramar, Esso, Fas Gas Plus, Chevron, Pioneer, and Race Trac. In addition, Parkland operates a leading convenience store brand, On the Run / Marché Express, as well as other convenience store brands that will be migrated over time to the On the Run / Marché Express brand where appropriate. Parkland's multi-brand strategy, as described below, provides a robust offering to satisfy many fuel market segments:

- **Ultramar** - Ultramar is one of the most recognized retail fuel brands in Quebec, Ontario and Atlantic Canada. Parkland has exclusive rights to use the Ultramar brand with the exception of sites retained by Alimentation Couche-Tard as part of the Ultramar Acquisition.
- **Esso** - The Esso-branded wholesaler agreement provides Parkland with the opportunity to offer Esso's nationally recognized premium brand to Parkland's own network and to independent dealers.
- **Fas Gas Plus** - Fas Gas Plus is a community-focused independent brand that brings consumers an urban offering in non-urban markets through large, well-merchandised convenience stores, a strong loyalty program and knowledgeable and friendly retailer operators and dealers. Parkland's strategy is to continue maximizing penetration of this brand throughout our traditional non-urban markets by acquiring new sites as well as modernizing and maintaining existing sites to the highest of Parkland's standards.
- **Chevron** - Chevron is a premium brand principally located in the Greater Vancouver area with locations across British Columbia and opening soon in Alberta. Other services include Town Pantry branded convenience stores and Triple O branded franchise restaurants. Parkland is an exclusive distributor of Chevron-branded fuels.
- **Pioneer** - Pioneer is an Ontario-based brand with high customer value largely located in suburban and commuter markets that offers a market leading competitive fuel price, regionally relevant loyalty program and convenient locations.
- **Race Trac** - Race Trac is designed for dealers who want to operate independently in the retail market and not be restricted by the requirements of other brand offerings.
- **On the Run / Marché Express convenience store brand** - Parkland is the franchisor and trademark owner of the On the Run / Marché Express convenience store brand in Canada. On the Run / Marché Express provides Parkland with a nationally recognized and reputable convenience store brand that is expected to grow and enhance our convenience store offering in company owned and franchise locations. Parkland currently has 122 company-owned locations in Canada.
- **Other** - In most cases, "Other" represents brands that are being migrated to Parkland's primary brand offerings over time.

### Business models

Parkland Retail operates under two main business models:

- **Company**
  The Company business model includes sites that are owned or leased by Parkland that are operated and managed by either Parkland or by independent retailers on its behalf. Parkland owns the fuel inventory and maintains control of the retail selling price at the pumps. Convenience store inventory may be owned by the retailer or Parkland. If the site is operated by a retailer, Parkland pays the retailer a commission on the fuel sales and collects from the retailer percentage rent on the convenience store sales or gross margin. Sites operating under industry models such as "company-owned, retailer-operated" ("CORO") and "company-owned, company-operated" ("COCO") are included under the Company business model.
- **Dealer**
  The Dealer business model includes sites owned or leased by an independent dealer or Parkland, and are operated and managed by the independent dealer. Parkland secures long-term fuel supply contracts with the dealer, usually between 5 and 20 years in length, and supplies fuel to the dealer based on independently published rack prices. The dealer owns the fuel inventory and maintains control of the retail price selling at the pumps, unless the inventory was sold to the dealer by Parkland on consignment, in which case Parkland owns the fuel inventory and maintains control of the retail price selling at the pumps. Convenience store inventory is owned by the dealer. Sites operating under industry models such as "dealer-owned, dealer-operated" ("DODO"), "company-owned, dealer-operated" ("CODO"), or consignment dealer-operated fall under the Dealer business model.

The Ultramar Acquisition, which closed on June 28, 2017, and the Chevron Acquisition, which closed on October 1, 2017, added 654 sites and 129 sites to our network, respectively. The acquired businesses have operating models or mixes of operating models that slightly differ from the pre-acquisition business (the "Base Business").

### Ultramar Retail operating model

Ultramar Company sites include company-operated sites where Parkland earns higher margins but is fully responsible for managing the site, including hiring employees to operate the site. This is different from the Base Business Company sites, which are managed by independent retailers who earn a commission on fuel sales and where Parkland collects a percentage rent from the retailer based on the convenience store sales. As a result, the introduction of the Ultramar Company sites increases Retail fuel margins and fuel and petroleum product adjusted gross profit, while also increasing operating costs, marketing, general and administrative expenses and net unit operating costs ("NUOC") for the Retail segment. Parkland is currently in the process of migrating Ultramar COCO sites to the CORO model as part of the CORO Conversion. The CORO Conversion is expected to lower adjusted gross profit, but is also expected to lower operating costs and marketing, general and administrative expenses, create a uniform Company retail platform to realize synergies, and provide Parkland with higher overall returns.

### Chevron Retail operating model

The sites acquired as part of the Chevron Acquisition are entirely Company sites under the CORO model while Parkland's Base Business contains a mix of mostly Dealer sites along with Company sites. Company sites earn higher fuel margins but run higher operating costs and marketing, general and administrative expenses compared to Dealer sites. As a result, the introduction of Chevron Retail increases fuel margins, fuel and petroleum product adjusted gross profit, operating costs, marketing, general and administrative expenses and NUOC for the Retail segment.

### Seasonality

Generally, Retail results fluctuate based on seasonality and experiences higher volumes and Adjusted EBITDA in the second and third quarters of the year during the summer driving season.

### Site count by brand and business model

The following table provides site count by brand and business model within the Retail segment:

| | Ultramar | Esso | Fas Gas Plus | Chevron | Pioneer | Race Trac | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Company sites | **160** | **73** | **91** | **161** | **120** | **1** | **11** | **617** |
| Dealer sites | **484** | **517** | **98** | **19** | **38** | **63** | **19** | **1,238** |
| Site count, as at December 31, 2018 | **644** | **590** | **189** | **180** | **158** | **64** | **30** | **1,855** |
| | | | | | | | | |
| Company sites | 146 | 70 | 90 | 160 | 118 | 1 | 11 | 596 |
| Dealer sites | 493 | 518 | 104 | 18 | 36 | 65 | 18 | 1,252 |
| Site count, as at December 31, 2017 | 639 | 588 | 194 | 178 | 154 | 66 | 29 | 1,848 |
| | | | | | | | | |
| Net change in site count | 5 | 2 | (5) | 2 | 4 | (2) | 1 | 7 |

The change in site count is attributable to network plan optimization and routine site count fluctuations as a result of new site builds (also known as new-to-industry or NTI sites), new dealers, site conversions, site sales, site closures, or site rebranding.

### Retail segment performance highlights

Retail Adjusted EBITDA decreased $16 million to $78 million for the fourth quarter of 2018 compared to the same period in 2017, primarily due to softer margins in some markets and very strong fuel margins on gasoline and diesel sales in the fourth quarter of 2017. Adjusted EBITDA grew $85 million to $316 million for the year ended December 31, 2018 compared to the respective period in the prior year primarily due to the Acquisitions, partially offset by softer margins. With the full benefit of the Acquisitions included in the fourth quarter of 2017, the fourth quarter of 2018 was the first quarter that Retail performance can be fully compared to the same period in 2017.

The fourth quarter of 2018 also saw slight decreases in non-fuel adjusted gross profit as a result of the CORO Conversion as described above. Excluding the impact of the CORO Conversion, non-fuel adjusted gross profit experienced growth as a result of continued efforts in Company C-Store activities. Parkland achieved a Company C-Store SSSG of 10.3% for the three months ended December 31, 2018 and 7.6% for the year ended December 31, 2018, marking its $12^{th}$ consecutive quarter of positive Company C-Store SSSG. This growth was attributable to the successful implementation of the new On the Run / Marché Express Flagship and Retrofit store concepts, the successful rollout of Parkland's proprietary private label brand $59^{th}$ Street Food Co., and continued backcourt convenience store optimization that resulted in higher forecourt to backcourt conversion rates. Parkland also saw Company Volume SSSG growth of 3.5% for the fourth quarter of 2018 and 0.7% for the year ended December 31, 2018, increasing our market share and demonstrating our commitment to grow organically.

| ($ millions, unless otherwise noted) | Three months ended December 31, 2018 | 2017 | Change | % | Year ended December 31, 2018 | 2017 | Change | % |
|---|---|---|---|---|---|---|---|---|
| Fuel and petroleum product volume[1] (million litres) | **1,742** | 1,731 | 11 | 1 % | **6,905** | 5,209 | 1,696 | 33% |
| Sales and operating revenue | **1,596** | 1,600 | (4) | — % | **6,913** | 4,504 | 2,409 | 53% |
| Fuel and petroleum product adjusted gross profit[2] | **134** | 154 | (20) | (13)% | **541** | 373 | 168 | 45% |
| Non-fuel adjusted gross profit[2] | **35** | 36 | (1) | (3)% | **148** | 96 | 52 | 54% |
| Adjusted gross profit[2] | **169** | 190 | (21) | (11)% | **689** | 469 | 220 | 47% |
| Operating costs | **76** | 81 | (5) | (6)% | **314** | 197 | 117 | 59% |
| Marketing, general and administrative | **15** | 15 | — | — % | **59** | 41 | 18 | 44% |
| Adjusted EBITDA[2] | **78** | 94 | (16) | (17)% | **316** | 231 | 85 | 37% |
| **KPIs:** | | | | | | | | |
| Fuel and petroleum product adjusted gross profit[2] (cpl) | **7.69** | 8.95 | (1.26) | (14)% | **7.83** | 7.17 | 0.66 | 9% |
| Operating costs (cpl) | **4.36** | 4.66 | (0.30) | (6)% | **4.55** | 3.78 | 0.77 | 20% |
| Marketing, general and administrative (cpl) | **0.86** | 0.91 | (0.05) | (5)% | **0.85** | 0.80 | 0.05 | 6% |
| Adjusted EBITDA[2] (cpl) | **4.48** | 5.46 | (0.98) | (18)% | **4.58** | 4.43 | 0.15 | 3% |
| Company Volume SSSG[5][6] | **3.5%** | (2.8)% | 6.3p.p | | **0.7%** | (2.5)% | 3.2p.p | |
| Company C-Store SSSG[5] | **10.3%** | 3.3 % | 7.0p.p | | **7.6%** | 3.5 % | 4.1p.p | |
| TTM net unit operating cost ("NUOC")[3][4] (cpl) | | | | | **3.26** | 2.74 | 0.52 | 19% |

[1] Includes gasoline, diesel and propane volumes.
[2] Measure of segment profit. See Section 13 of this MD&A.
[3] Non-GAAP financial measure. See Section 13 of this MD&A.
[4] Amounts presented on a trailing-twelve-month ("TTM") basis.
[5] SSSG denotes same-store sales growth. See Section 13 of this MD&A for an explanation of this KPI. This includes results of sites acquired under the Ultramar Acquisition for both periods but excludes results of sites acquired under the Chevron Acquisition for both periods, as comparable information is not available.
[6] Company Volume SSSG includes gasoline and diesel volumes, but excludes propane volumes sold at retail sites.

### Q4 and Q4 YTD - 2018 vs. 2017

Fuel and petroleum product volume increased 11 million litres for the fourth quarter of 2018 primarily due to new-to-industry sites as well as Company Volume SSSG, driven by volume growth at Company sites. Fuel and petroleum product volume increased 1,696 million litres for the year ended December 31, 2018 primarily due to the Acquisitions as well as positive Company Volume SSSG.

Sales and operating revenue remained relatively consistent for the fourth quarter of 2018 due to volume growth offset by slightly lower fuel and petroleum product commodity prices. However, sales and operating revenue increased $2,409 million for the year ended December 31, 2018 primarily due to the Acquisitions and higher fuel and petroleum product commodity prices year over year.

Adjusted gross profit consists of: (i) fuel and petroleum product adjusted gross profit primarily from gasoline and diesel sales, and (ii) non-fuel adjusted gross profit primarily from convenience store merchandise sales, convenience store rents, car wash revenue, and other ancillary sales. Fuel and petroleum product adjusted gross profit decreased $20 million for the fourth quarter of 2018 primarily due to softer margins in some markets and very strong fuel margins on gasoline and diesel sales in the fourth quarter of 2017. Fuel and petroleum product adjusted gross profit increased $168 million for the year ended December 31, 2018 primarily due to the Acquisitions, partially offset by softer margins. Non-fuel adjusted gross profit decreased slightly for the fourth quarter of 2018 as a result of the CORO Conversion. Excluding the impact of the CORO Conversion, non-fuel adjusted gross profit saw good growth as a result of continued successful efforts in Company C-Store activities, such as the successful implementation of the new On the Run / Marché Express store concepts and rollout of our private label offering. Non-fuel adjusted gross profit increased $52 million for the year ended December 31, 2018 largely due to the contributions from the Acquisitions as well as the result of continued successful efforts in Company C-Store activities.

Operating costs are expenses incurred primarily at Company sites, including retailer fuel commissions, supplies and costs associated with owning and maintaining the property, building and equipment such as rents, repairs and maintenance, environmental, utilities, insurance and property tax costs. Operating costs decreased $5 million for the fourth quarter of 2018, primarily as a result of the CORO Conversion, as well as effective cost control measures. Operating costs increased $117 million for the year ended December 31, 2018 mainly due to the Acquisitions and in part due to higher retailer fuel commissions, driven by minimum wage increases, as well as higher variable credit card transaction fees, driven by higher street pump prices.

Retail marketing, general and administrative expenses include marketing, real estate, finance, operations, credit, network development and infrastructure expenses. Marketing, general and administrative expenses remained consistent for the fourth quarter of 2018 and increased $18 million for the year ended December 31, 2018, as expected, primarily due to the Acquisitions. Parkland also invested in the On the Run / Marché Express new store concepts, rollout of our private label offering, and other strategic marketing programs to drive future growth in volume and backcourt convenience store sales.

**KPIs**

Fuel and petroleum product adjusted gross profit on a cpl basis decreased 14% for the fourth quarter of 2018 primarily due to softer margins in the Alberta and Quebec markets, as well as the impact of the CORO Conversion. Fuel and petroleum product adjusted gross profit on a cpl basis increased 9% for the year ended December 31, 2018 primarily due to the Acquisitions, which have slightly different operating models than the Base Business that earn higher adjusted gross profit as discussed in the "Ultramar Retail operating model" and "Chevron Retail operating model" sections above.

Operating costs on a cpl basis improved 6% for the fourth quarter of 2018 primarily as a result of the CORO Conversion, which lowers operational costs. Operating costs on a cpl basis increased 20% for the year ended December 31, 2018 primarily due to the Acquisitions, which have higher cost operating models, as discussed above. Parkland also experienced higher retailer commissions, driven by minimum wage increases, and greater variable credit card transaction fees, driven by higher street pump prices.

Marketing, general and administrative expenses on a cpl basis decreased 5% for the fourth quarter of 2018 primarily due to the combination of the CORO Conversion and increased volumes. However, this metric increased 6% for the year ended December 31, 2018 primarily due to the Acquisitions, which have slightly different operating models with higher marketing, general and administrative expenses, as described above. Parkland also incurred additional expenses related to the On the Run / Marché Express new store concepts, rollout of our private label offering, and other strategic marketing programs to drive future growth.

For the purposes of this MD&A, Company Volume SSSG and Company C-Store SSSG include the results of sites acquired under the Ultramar Acquisition for both periods but exclude results of sites acquired under the Chevron Acquisition for both periods, as comparable information is not available.

Company Volume SSSG was 3.5% for the fourth quarter of 2018 compared to (2.8)% for the same period in 2017, and 0.7% for the year ended December 31, 2018 compared to (2.5)% for the same period in 2017, primarily due to strategic efforts to increase same-store volume at Company sites.

Company C-Store SSSG improved to 10.3% for the fourth quarter of 2018, surpassing strong growth of 3.3% for the same period in 2017. Similarly, Company C-Store SSSG improved to 7.6% for the year ended December 31, 2018, surpassing strong growth of 3.5% for the same period in 2017. These increases, experienced in both western and eastern Canada, were attributable to ongoing marketing programs including the new On the Run / Marché Express store concepts and rollout of the proprietary private label brand 59th Street Food Co. Parkland saw strong performance in Company C-Store SSSG across all merchandise categories.

NUOC was higher by 19% in the trailing twelve months ended December 31, 2018 compared to the same period in 2017 primarily due to the Acquisitions, which have different operating models with higher NUOC, as described above. NUOC improved from 3.32cpl in the third quarter of 2018 to 3.26cpl in the fourth quarter of 2018, mainly as a result of successful cost control measures.

## Commercial

### Overview

Parkland Commercial (formerly "Commercial Fuels") delivers bulk fuel, bulk and cylinder exchange propane, heating oil, lubricants and other related products and services to commercial, industrial and residential customers across Canada through an extensive delivery network. Commercial also has an extensive cardlock network. Parkland uses a variety of regionally relevant trade names, service marks and trademarks in the businesses that are considered important and valuable in marketing its products. The family of brands in this segment includes Ultramar, Bluewave Energy, Pipeline Commercial, Chevron, Columbia Fuels, and Sparlings Propane. Parkland's Commercial customer base is diverse, supplying a broad cross-section of industries across Canada including oil and gas, construction, mining, forestry, fishing and transportation. Parkland also sells propane and heating oil to residential customers.

Parkland added 73 commercial cardlock sites and 30 commercial and home heating sites through the Ultramar Acquisition, which closed on June 28, 2017, as well as 37 commercial cardlock locations through the Chevron Acquisition, which closed on October 1, 2017. These acquired businesses have operating models or mixes of operating models that slightly differ from the Base Business and thus have an impact on KPIs.

### Ultramar Commercial operating model

Ultramar Commercial includes a cardlock business with commercial truck fuelling stations located near highways as well as a commercial and home heat business that distributes heating oil and motor fuels to residential and commercial customers. Unlike Parkland's Base Business, Ultramar Commercial does not have significant propane, bulk fuel or lubricant operations, and does not operate a cylinder exchange program, which generally earn higher margins but carry higher operating costs. As a result, the introduction of Ultramar Commercial reduces fuel margins, fuel and petroleum product adjusted gross profit, operating costs and marketing, general and administrative expenses on a cpl basis for the Commercial segment.

### Chevron Commercial operating model

Chevron's Commercial business includes a cardlock business with truck fuelling stations as well as a commercial business that serves large wholesale customers. As such, Chevron Commercial is a higher volume, lower margin business. Unlike Parkland's Base Business, it does not serve residential customers or operate a cylinder exchange, which carry relatively higher operating costs. Moreover, it has lower overhead costs since it does not have branches or bulk storage facilities and uses third-party carriers instead of owned trucks to deliver fuel. As a result, the introduction of Chevron Commercial reduces fuel margins, fuel and petroleum product adjusted gross profit, operating costs and marketing, general and administrative expenses on a cpl basis for the Commercial segment.

### Seasonality

Generally, Commercial results fluctuate based on seasonality and experiences higher volumes and Adjusted EBITDA in the first and fourth quarters of the year as a result of higher demand for heating oil and propane in the winter, and lower volumes and Adjusted EBITDA in the second and third quarters of the year as a result of lower demand for heating oil and propane in the summer.

### Commercial segment performance highlights

Adjusted EBITDA remained relatively consistent for the fourth quarter of 2018 compared to the fourth quarter of 2017 and increased $23 million for 2018 compared to 2017 primarily due to the Acquisitions and strong results in the first half of 2018 from propane organic growth and customer wins. With the full benefit of the Acquisitions included in the fourth quarter of 2017, the fourth quarter of 2018 was the first quarter that Commercial performance can be fully compared to the same period of 2017. Commercial is currently embarking on the optimization of its brand portfolio in various geographic locations. Certain legacy operations, particularly in eastern Canada, were successfully rebranded to Ultramar, enabling Parkland to drive future growth and sustained profitability under one aligned customer value proposition.

| ($ millions, unless otherwise noted) | Three months ended December 31, 2018 | 2017 | Change | % | Year ended December 31, 2018 | 2017 | Change | % |
|---|---|---|---|---|---|---|---|---|
| Gas and diesel volume (million litres)(5) | **690** | 715 | (25) | (3)% | **2,751** | 1,782 | 969 | 54 % |
| Propane volume (million litres) | **130** | 135 | (5) | (4)% | **427** | 402 | 25 | 6 % |
| Fuel and petroleum product volume(1)(5) (million litres) | **820** | 850 | (30) | (4)% | **3,178** | 2,184 | 994 | 46 % |
| Sales and operating revenue(5) | **734** | 717 | 17 | 2 % | **2,880** | 1,733 | 1,147 | 66 % |
| Fuel and petroleum product adjusted gross profit(2) | **74** | 73 | 1 | 1 % | **272** | 202 | 70 | 35 % |
| Non-fuel adjusted gross profit(2) | **13** | 17 | (4) | (24)% | **55** | 61 | (6) | (10)% |
| Adjusted gross profit(2) | **87** | 90 | (3) | (3)% | **327** | 263 | 64 | 24 % |
| Operating costs | **48** | 50 | (2) | (4)% | **191** | 158 | 33 | 21 % |
| Marketing, general and administrative | **12** | 12 | — | — % | **43** | 35 | 8 | 23 % |
| Adjusted EBITDA(2) | **27** | 28 | (1) | (4)% | **93** | 70 | 23 | 33 % |
| **KPIs:** | | | | | | | | |
| Fuel and petroleum product adjusted gross profit(2)(5) (cpl) | **9.02** | 8.59 | 0.43 | 5 % | **8.56** | 9.25 | (0.69) | (7)% |
| Operating costs(5) (cpl) | **5.85** | 5.88 | (0.03) | (1)% | **6.01** | 7.23 | (1.22) | (17)% |
| Marketing, general and administrative(5) (cpl) | **1.46** | 1.41 | 0.05 | 4 % | **1.35** | 1.60 | (0.25) | (16)% |
| Adjusted EBITDA(2)(5) (cpl) | **3.29** | 3.29 | — | — % | **2.93** | 3.21 | (0.28) | (9)% |
| TTM operating ratio(3)(4) | | | | | **71.6%** | 73.2% | (1.6p.p.) | |

(1) Includes gasoline, diesel and propane volumes.
(2) Measure of segment profit. See Section 13 of this MD&A.
(3) Non-GAAP financial measure. See Section 13 of this MD&A.
(4) Amounts presented on a trailing-twelve-month ("TTM") basis.
(5) For comparative purposes, gas and diesel volume, fuel and petroleum product volume, sales and operating revenue, and cpl KPI metrics for the three months and year ended December 31, 2017 were restated for a reclassification from Commercial to Supply, reflecting a change in customer service delivery structure in 2018.

### Q4 and Q4 YTD - 2018 vs. 2017

Fuel and petroleum product volume decreased 30 million litres for the fourth quarter of 2018 primarily due to softer volumes in western Canada while fuel and petroleum product volume increased 994 million litres for the year ended December 31, 2018 primarily due to the Acquisitions. In addition, propane volume grew by 6% for the year ended December 31, 2018, largely due to organic growth and customer wins in the first half of 2018.

Sales and operating revenue remained relatively consistent for the fourth quarter of 2018 and increased $1,147 million for the year ended December 31, 2018 primarily due to the Acquisitions and higher fuel and petroleum product commodity prices year over year.

Adjusted gross profit decreased $3 million for the fourth quarter of 2018 primarily due to lower non-fuel contributions driven by softer lubricants performance. Adjusted gross profit increased $64 million for the year ended December 31, 2018 primarily due to the Acquisitions and strong propane performance during the first, second and third quarters of 2018.

Operating costs include driver and administrative labour, fleet maintenance and operating costs, third-party delivery expenses, and costs associated with owning and maintaining land, buildings and equipment such as rent, repairs and maintenance, environmental, utilities, insurance and property tax costs. Operating costs decreased slightly for the fourth quarter of 2018 as Parkland continues to maintain a strong emphasis on cost management. Operating costs increased $33 million for the year ended December 31, 2018 primarily due to the Acquisitions.

Marketing, general and administrative expenses in the Commercial business are typically fixed in nature and do not vary significantly with volume. Activities in this category include sales, marketing, real estate, finance, operations, credit, network development and infrastructure. Although Parkland incurred expenses on brand optimization and consolidation, marketing, general and administrative expenses remained consistent for the fourth quarter of 2018 as Parkland continues to maintain a strong emphasis on cost management. Marketing, general and administrative expenses increased $8 million for the year ended December 31, 2018 primarily due to the Acquisitions.

**KPIs**

Fuel and petroleum product adjusted gross profit on a cpl basis increased 5% for the fourth quarter of 2018 due to stronger propane margins as well as the impact of shifting of certain customers acquired as part of the Acquisitions to Supply's wholesale group in order to realize synergies and optimize service delivery for those customers. However, this metric decreased 7% for the year ended December 31, 2018 primarily due to the Acquisitions, which have a different business sales mix and margin structure as discussed in the "Ultramar Commercial operating model" and "Chevron Commercial operating model" sections above.

Operating costs on a cpl basis remained relatively consistent for the fourth quarter of 2018. For the year ended December 31, 2018, this metric improved by 17% primarily due to the Acquisitions, which have lower operating cost models, as discussed above.

Marketing, general and administrative expenses on a cpl basis increased 4% for the fourth quarter of 2018, primarily due to lower volumes despite stable marketing, general and administrative expenses while investments were made to optimize the brand portfolio. Marketing, general and administrative expenses on a cpl basis decreased 16% for the year ended December 31, 2018 primarily due to the Acquisitions, which have lower cost models as explained above. Parkland continues to maintain effective cost management across the Commercial business as acquisitions are integrated.

The TTM operating ratio, which is the ratio of operating costs and marketing, general and administrative expenses to adjusted gross profit, improved from 73.2% to 71.6% for the year ended December 31, 2018 primarily due to the impact of the different operating models of the Acquisitions and cost control initiatives.

## Supply

Parkland's Supply segment optimizes fuel supply by operating the Burnaby Refinery, contracting and purchasing fuel from other refiners and suppliers, distributing through rail and highway carriers, storing fuel in owned and leased facilities, serving wholesale and reseller customers in North America, and producing and selling aviation fuel to airlines operating out of the Vancouver International Airport. Supply serves internal Parkland operating segments as well as external customers and markets products via the Parkland, Les Pétroles Parkland, Elbow River Marketing and Chevron brands. Major sales categories are:

- gasoline and diesel;
- liquid petroleum gas ("LPG"), which includes propane and butane; and
- other fuel and petroleum products, which include crude oil, aviation fuel, asphalt, fuel oils, gas oils, ethanol and biodiesel.

**Contracts** - Parkland maintains fuel supply contracts with multiple oil refiners, wholesale and trading suppliers. This diversity of supply contracts, combined with strategic storage and logistics infrastructure, allows Parkland to obtain fuel at competitive prices and enhances fuel supply security for Parkland-owned sites and for all Parkland customers.

**Purchases** - Supply sources fuel from third-party suppliers and sells, at an arm's length transfer price, to Parkland's Retail, Commercial, and Parkland USA segments as well as external wholesaler customers. Supply also provides transportation services to the Retail and Commercial segments. Parkland utilizes its leased rail car fleet and leverages its network of North American relationships with a view to match purchase and sales contracts and execute on a strategy of geographic arbitrage.

**Infrastructure** - Parkland's supply network has access to selective investments in terminal infrastructure in uniquely situated geographical locations across North America that enable Parkland's supply optionality.

### Burnaby Refinery

Parkland owns and operates a 55,000 bpd light / sweet crude refinery in Burnaby, British Columbia, which is ideally located to serve the British Columbia market with pipeline access to Canadian light crude. It is the only refinery in the Vancouver area and the largest of only two refineries in the province. Additionally, the Burnaby Refinery is highly integrated with the Retail, Commercial and Supply wholesale businesses, with the majority of its production sold internally to these operating segments.

### Supply segment performance highlights

Supply Adjusted EBITDA for the three months and year ended December 31, 2018 were $199 million and $561 million, respectively (2017 - $94 million and $160 million). These exceptional results were driven by the contributions from the Chevron Acquisition, strong refining crack spreads, profitable supply sourcing initiatives, improved supply economics, and continued efforts in executing Parkland's supply advantage strategy. Due to the rapid price decrease of both crude feedstock and refined products in the fourth quarter, Parkland also benefited from gains of $49 million and $20 million for the three months and year ended December 31, 2018, respectively, from Intermediation Facility Derivatives relating to the Burnaby Refinery, which flow through cost of purchases. With the full benefit of the Acquisitions included in the fourth quarter of 2017, the fourth quarter of 2018 was the first quarter that Supply performance can be fully compared to the same period of 2017. Parkland is committed to driving ongoing improvements to our supply economics and optionality as part of our supply strategy while implementing cost control initiatives to reduce operating costs.

During the first week of April 2018, Parkland successfully completed the Burnaby Refinery Turnaround, which began in early February. During the year ended December 31, 2018, $88 million of Turnaround costs were incurred, of which $75 million was capitalized within maintenance capital expenditures and $13 million was expensed within operating costs.

| | **Three months ended December 31,** | | | | **Year ended December 31,** | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions, unless otherwise noted) | **2018** | 2017 | Change | % | **2018** | 2017 | Change | % |
| Fuel and petroleum product volume[1][4] (million litres) | **1,470** | 1,621 | (151) | (9)% | **5,833** | 4,997 | 836 | 17% |
| Sales and operating revenue[4] | **847** | 927 | (80) | (9)% | **3,606** | 2,613 | 993 | 38% |
| Fuel and petroleum product adjusted gross profit[2] | **282** | 164 | 118 | 72 % | **859** | 281 | 578 | 206% |
| Non-fuel adjusted gross profit[2] | **9** | 7 | 2 | 29 % | **24** | 15 | 9 | 60% |
| Adjusted gross profit[2] | **291** | 171 | 120 | 70 % | **883** | 296 | 587 | 198% |
| Operating costs | **73** | 59 | 14 | 24 % | **255** | 88 | 167 | 190% |
| Marketing, general and administrative | **19** | 18 | 1 | 6 % | **67** | 48 | 19 | 40% |
| Adjusted EBITDA[2] | **199** | 94 | 105 | 112 % | **561** | 160 | 401 | 251% |
| **KPI:** | | | | | | | | |
| Refinery utilization[3] | **87.8 %** | 94.4% | (6.6 p.p) | | **77.6%** | | | |
| Crude throughput[3] (000's bpd) | **48.3** | 51.9 | (3.6) | (7)% | **42.7** | | | |

(1) Includes external gasoline, diesel, propane, crude oil and other volumes. Intersegment volumes, including volumes produced by the Burnaby Refinery and transferred to the Retail and Commercial segments, are excluded from these reported volumes.
(2) Measure of segment profit. See Section 13 of this MD&A.
(3) See Section 13 of this MD&A for KPI description.
(4) For comparative purposes, fuel and petroleum product volume, and sales and operating revenue metrics for the three months and year ended December 31, 2017 were restated for a reclassification from Commercial to Supply, reflecting a change in customer service delivery structure in 2018.

### Q4 and Q4 YTD - 2018 vs. 2017

Fuel and petroleum product volume decreased 151 million litres for the fourth quarter of 2018, reflecting market conditions and rail delivery backlogs which have subsequently cleared. Fuel and petroleum product volume increased 836 million litres for the year ended December 31, 2018 primarily due to the Chevron Acquisition. Base Business crude oil, gasoline, and diesel and propane volumes also increased for both periods, driven by strategic initiatives to drive volume growth and scale.

Sales and operating revenue decreased $80 million for the fourth quarter of 2018, primarily due to volume decreases and finished product market conditions. Sales and operating revenue increased by $993 million for the year ended December 31, 2018 mainly due to the Chevron Acquisition and in part due to higher commodity prices and volume increases for crude oil, gasoline, diesel and propane sales.

Adjusted gross profit increased $120 million for the fourth quarter of 2018, primarily due to strong refining crack spreads, integration synergies, and a gain on Intermediation Facility Derivatives of $49 million, which flows through cost of purchases. Adjusted gross profit increased $587 million for the year ended December 31, 2018 primarily due to the Chevron Acquisition, led by strong refining crack spreads, a one-time supply benefit of approximately $30 million during the Burnaby Refinery Turnaround, integration synergies, a gain on Intermediation Facility Derivatives of $20 million, which flows through cost of purchases, and significant progress made in optimizing supply economics.

Operating costs increased $14 million for the fourth quarter of 2018 in part due to higher natural gas costs to run the Burnaby Refinery resulting from a natural gas pipeline interruption in British Columbia, as well as higher maintenance and other operational costs. Operating costs increased $167 million for the year ended December 31, 2018 primarily due to the Chevron Acquisition and its 2018 Turnaround. Parkland continues to drive ongoing cost improvements in our storage and distribution operations as part of our supply advantage strategy.

Marketing, general and administrative expenses, which relate to employee and market development costs, remained relatively consistent for the fourth quarter of 2018 due to an emphasis on cost management despite business growth. Marketing, general and administrative expenses increased $19 million for the year ended December 31, 2018 largely due to the Chevron Acquisition.

**KPIs**

Refinery utilization is a key performance indicator that measures crude oil throughput and is expressed as a percentage of the 55,000 bpd total crude distillation capacity at the Burnaby Refinery. Refinery utilization was 87.8% for the fourth quarter of 2018 compared to 94.4% for the fourth quarter of 2017 as a result of economic optimization in light of high pipeline transportation costs for uncontracted line space. Moreover, Parkland increased processing of intermediary products such as vacuum gas oil and these products are not reflected in the refinery utilization rate.

Crude throughput is a key performance indicator that measures the amount of crude oil processed and converted to products in the Burnaby Refinery. Average crude throughput for the fourth quarter of 2018 at the Burnaby Refinery was approximately 48,300 bpd, a decrease from 51,900 barrels per day for the fourth quarter of 2017 as a result of economic optimization strategies for the Burnaby Refinery and the processing of intermediary products and bio-fuels such as canola and tallow in 2018, which are not reflected in crude throughput.

## Parkland USA

### Overview

Parkland USA supports a network of gas stations and delivers bulk fuel, lubricants and other related products and services to customers throughout Arizona, Colorado, Minnesota, Montana, New Mexico, North Dakota, South Dakota, Utah and Wyoming. Parkland USA is a platform for growth in the United States and provides Parkland export opportunities for products from western Canada. Brands in this segment include Farstad Oil, Superpumper, Rhinehart Oil, and Harts. Parkland USA operates and generates profits from the following channels:

- **Wholesale** - Parkland USA manages fuel supply contracts, purchases fuel from suppliers, distributes through rail and highway carriers, and serves wholesale customers, retailers, small resellers and commercial operators. Parkland USA operates a large fleet of trucks that deliver wholesale fuels and commercial lubricants to customers.
- **Retail** - Parkland USA operates and services a network of retail service stations under the Company and Dealer models, Parkland USA has 41 Company sites, often co-branded with a major brand in the forecourt. Parkland USA supplies to 222 Dealer sites, which include a number of multi-site dealer chains with both branded and unbranded relationships. Refer to the "Retail" section above for a description of Company and Dealer sites.
- **Lubricants** - Parkland USA delivers Exxon Mobil and private label lubricants, chemicals, ancillary automotive products, and equipment to commercial, industrial and wholesale customers through an extensive delivery network in the regions that Parkland operates.

### Rhinehart Acquisition and operating model

The Rhinehart Acquisition, which closed on August 27, 2018, added 10 distribution facilities, 9 retail sites, and 4 cardlock facilities. Unlike Parkland USA's Base Business, Rhinehart does not have significant bulk fuel operations, which are high volume and low margin in nature. In addition, Rhinehart's operating model focuses heavily on lubricants, which are not included in fuel and petroleum product volume. As a result, the introduction of the Rhinehart business increases overall non-fuel adjusted gross profit due to higher lubricant sales. It also increases fuel and petroleum product adjusted gross profit, operating costs and marketing, general and administrative expenses on a cpl basis due to the nature of the lubricants business.

### Parkland USA segment performance highlights

Adjusted EBITDA increased $7 million for the fourth quarter of 2018 and $12 million for the year ended December 31, 2018 primarily due to the Rhinehart Acquisition and Parkland's continued focus on its strategy to drive new business, grow organically and manage costs.

| | Three months ended December 31, | | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions, unless otherwise noted) | **2018** | 2017 | Change | % | **2018** | 2017 | Change | % |
| Retail volume (million litres) | **63** | 36 | 27 | 75% | **173** | 138 | 35 | 25% |
| Wholesale volume (million litres) | **259** | 194 | 65 | 34% | **889** | 805 | 84 | 10% |
| Fuel and petroleum product volume[1] (million litres) | **322** | 230 | 92 | 40% | **1,062** | 943 | 119 | 13% |
| Sales and operating revenue | **349** | 185 | 164 | 89% | **1,043** | 710 | 333 | 47% |
| | | | | | | | | |
| Fuel and petroleum product adjusted gross profit[2] | **16** | 8 | 8 | 100% | **42** | 31 | 11 | 35% |
| Non-fuel adjusted gross profit[2] | **22** | 9 | 13 | 144% | **54** | 34 | 20 | 59% |
| Adjusted gross profit[2] | **38** | 17 | 21 | 124% | **96** | 65 | 31 | 48% |
| | | | | | | | | |
| Operating costs | **21** | 10 | 11 | 110% | **55** | 41 | 14 | 34% |
| Marketing, general and administrative | **6** | 3 | 3 | 100% | **13** | 8 | 5 | 63% |
| Adjusted EBITDA[2] | **11** | 4 | 7 | 175% | **28** | 16 | 12 | 75% |
| | | | | | | | | |
| **KPIs:** | | | | | | | | |
| Fuel and petroleum product adjusted gross profit[2] (cpl) | **4.97** | 3.48 | 1.49 | 43% | **3.95** | 3.32 | 0.63 | 19% |
| Operating costs (cpl) | **6.52** | 4.31 | 2.21 | 51% | **5.18** | 4.31 | 0.87 | 20% |
| Marketing, general and administrative (cpl) | **1.86** | 1.04 | 0.82 | 79% | **1.22** | 0.84 | 0.38 | 45% |
| Adjusted EBITDA[2] (cpl) | **3.42** | 1.70 | 1.72 | 101% | **2.64** | 1.73 | 0.91 | 53% |
| | | | | | | | | |
| TTM operating ratio[3][4] | | | | | **70.8%** | 74.8% | (4.0p.p.) | |

[1] Includes gasoline, diesel and propane volumes.
[2] Measure of segment profit. See Section 13 of this MD&A.
[3] Non-GAAP financial measure. See Section 13 of this MD&A.
[4] Amounts presented on a trailing-twelve-month ("TTM") basis.

### Q4 and Q4 YTD - 2018 vs. 2017

Fuel and petroleum product volume increased 92 million litres for the fourth quarter of 2018 and 119 million litres for the year ended December 31, 2018 primarily due to the Rhinehart Acquisition as well as organic growth. The increase in volumes, along with increased commodity and fuel prices, drove a $164 million increase in sales and operating revenue for the fourth quarter of 2018 and $333 million increase for the year ended December 31, 2018.

Adjusted gross profit increased $21 million for the fourth quarter of 2018 and $31 million for the year ended December 31, 2018 primarily due to the Rhinehart Acquisition and organic growth. Adjusted gross profit for the year ended December 31, 2018 also benefited from strong lubricant margins.

Operating costs and marketing, general and administrative expenses increased $11 million and $3 million, respectively, for the fourth quarter of 2018 and increased $14 million and $5 million, respectively, for the year ended December 31, 2018 primarily due to the Rhinehart Acquisition.

**KPIs**

Fuel and petroleum product adjusted gross profit on a cpl basis increased 43% for the fourth quarter of 2018 and 19% for the year ended December 31, 2018 primarily due to the Rhinehart Acquisition, which has a different business sales mix as discussed in the "Rhinehart Acquisition and operating model" section above. In addition, the Base Business saw stronger fuel margins.

Marketing, general and administrative expenses on a cpl basis increased 79% for the fourth quarter of 2018 and 45% for the year ended December 31, 2018 primarily due to the Rhinehart Acquisition, which has a higher cost operating model as discussed above. The TTM operating ratio improved from 74.8% to 70.8% for the year ended December 31, 2018, reflecting our commitment to successfully implement cost control measures while driving business growth.

## Corporate

The Corporate segment includes centralized administrative services and expenses incurred to support operations. Due to the nature of these activities, these costs are not specifically allocated to Parkland's operating segments. Parkland's objective is to manage corporate expenses tightly so that they increase at a slower pace than Parkland's adjusted gross profit. Corporate marketing, general and administrative expenses increased for the fourth quarter of 2018 as certain recurring acquisition costs have been included whereas these costs were not included in the comparable quarter of 2017. Marketing, general and administrative expenses increased in 2018 compared to 2017 due to marketing, general and administrative expenses associated with the Acquisitions.

### Corporate segment performance highlights

| | **Three months ended December 31,** | | | | **Year ended December 31,** | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions, unless otherwise noted) | **2018** | 2017 | Change | % | **2018** | 2017 | Change | % |
| Marketing, general and administrative | **32** | 23 | 9 | 39 % | **111** | 60 | 51 | 85 % |
| Adjusted EBITDA[1] | **(30)** | (22) | (8) | 36 % | **(111)** | (59) | (52) | 88 % |
| Acquisition, integration and other costs | **24** | 41 | (17) | (41)% | **77** | 84 | (7) | (8)% |
| **KPI:** | | | | | | | | |
| Corporate marketing, general and administrative expenses as a % of Parkland's adjusted gross profit | **5.5%** | 4.8% | 0.7p.p. | | **5.6%** | 5.5% | 0.1p.p. | |

[1] Measure of segment profit. See Section 13 of this MD&A.

### Q4 and Q4 YTD - 2018 vs. 2017

Compared to the equivalent periods in the prior year, marketing, general and administrative expenses increased $9 million for the fourth quarter of 2018 and $51 million for the year ended December 31, 2018 and Corporate Adjusted EBITDA expense increased $8 million for the fourth quarter of 2018 and $52 million for the year ended December 31, 2018, as expected, primarily due to additional Corporate costs to support the larger integrated business and execute future growth strategies. In particular, additional costs were incurred for technological innovation initiatives and employee costs to support Parkland's growth.

On a consolidated basis, Corporate marketing, general and administrative expenses as a percentage of Parkland's adjusted gross profit remained relatively consistent for the fourth quarter of 2018 and for the year ended December 31, 2018 as Parkland maintains a disciplined approach towards cost management.

Acquisition, integration and other costs decreased $17 million for the fourth quarter of 2018 and $7 million for the year ended December 31, 2018 due to lower integration costs as a result of completing the ERP system conversion for the Ultramar TSA and Phase I of the Chevron TSA during the second and third quarters of 2018. Furthermore, lower acquisition costs were incurred for the three months and year ended December 31, 2018 compared to the same periods of 2017 as costs to close the Sol Transaction and Rhinehart Acquisition were relatively lower than costs to close the Ultramar Acquisition and the Chevron Acquisition.

### Health, safety and environment ("HS&E")

Parkland is committed to ensuring a safe working environment that protects our employees, customers and the environment. Parkland is committed to reducing injuries and incidents in our workplaces and at customer sites, actively involving our workers in enhancing, tracking and measuring our performance, and training our workers to ensure they have the knowledge and skills necessary to perform their work safely. Parkland has a number of internal HS&E programs in place, including "Stop, Think, Act", which reinforces a strong safety culture among all employees in the workplace, and "Drive to Zero", which aims to reduce safety incidents at Parkland down to zero.

The table below presents Parkland's consolidated lost time injury frequency ("LTIF") and total recordable injury frequency ("TRIF") calculated on a trailing-twelve-month basis, including the results of the Acquisitions since the dates of their respective acquisition.

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| TTM LTIF | **0.20** | 0.23 |
| TTM TRIF | **1.62** | 2.04 |

## 5. QUARTERLY FINANCIAL DATA

| ($ millions, unless otherwise noted) | **2018** | | | | **2017** | | | |
|---|---|---|---|---|---|---|---|---|
| For the three months ended | **Dec 31** | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | June 30 | Mar 31 |
| **Financial Summary** | | | | | | | | |
| Sales and operating revenue[4] | **3,526** | 3,849 | 3,783 | 3,342 | 3,429 | 2,580 | 1,786 | 1,765 |
| Adjusted gross profit[1] | **587** | 465 | 513 | 430 | 469 | 266 | 168 | 191 |
| Adjusted EBITDA[1] | | | | | | | | |
| Retail | **78** | 87 | 82 | 69 | 94 | 74 | 38 | 25 |
| Commercial | **27** | 10 | 18 | 38 | 28 | 8 | 5 | 29 |
| Supply | **199** | 121 | 170 | 71 | 94 | 25 | 18 | 23 |
| Parkland USA | **11** | 8 | 5 | 4 | 4 | 4 | 5 | 3 |
| Corporate | **(30)** | (26) | (26) | (29) | (22) | (15) | (12) | (10) |
| Consolidated | **285** | 200 | 249 | 153 | 198 | 96 | 54 | 70 |
| Net earnings (loss) | **77** | 49 | 60 | 20 | 49 | 12 | (1) | 22 |
| Per share – basic | **0.58** | 0.37 | 0.45 | 0.15 | 0.37 | 0.10 | (0.01) | 0.23 |
| Per share – diluted | **0.57** | 0.36 | 0.45 | 0.15 | 0.37 | 0.10 | (0.01) | 0.22 |
| Distributable cash flow[2] | **151** | 112 | 118 | 29 | 45 | 45 | 23 | 38 |
| Per share[2][3] | **1.14** | 0.84 | 0.89 | 0.22 | 0.33 | 0.35 | 0.20 | 0.40 |
| Adjusted distributable cash flow[2] | **175** | 138 | 139 | 110 | 102 | 64 | 39 | 46 |
| Per share[2][3] | **1.32** | 1.04 | 1.05 | 0.84 | 0.78 | 0.50 | 0.35 | 0.48 |
| Dividends | **41** | 39 | 41 | 38 | 39 | 38 | 33 | 28 |
| Dividends declared per share outstanding | **0.2934** | 0.2934 | 0.2934 | 0.2902 | 0.2886 | 0.2886 | 0.2886 | 0.2852 |
| Dividend payout ratio[2] | **27%** | 35% | 35% | 131% | 89% | 83% | 146% | 72% |
| Adjusted dividend payout ratio[2] | **23%** | 28% | 29% | 35% | 38% | 59% | 84% | 60% |
| Total assets | **5,661** | 5,736 | 5,592 | 5,492 | 5,412 | 4,830 | 4,281 | 2,469 |
| Shares outstanding (millions) | **134** | 133 | 132 | 132 | 131 | 131 | 130 | 97 |
| Weighted average number of common shares (millions) | **133** | 133 | 132 | 131 | 131 | 131 | 111 | 96 |
| **Operating Summary** | | | | | | | | |
| Fuel and petroleum product volume (million litres) | **4,354** | 4,211 | 4,202 | 4,211 | 4,432 | 3,557 | 2,588 | 2,756 |
| Fuel and petroleum product adjusted gross profit[1] | | | | | | | | |
| Retail (cpl) | **7.69** | 7.78 | 8.00 | 7.88 | 8.95 | 7.10 | 5.78 | 5.25 |
| Commercial (cpl)[4] | **9.02** | 6.86 | 8.08 | 9.84 | 8.59 | 6.95 | 9.36 | 13.16 |
| Parkland USA (cpl) | **4.97** | 3.27 | 3.66 | 3.65 | 3.48 | 2.97 | 3.31 | 3.58 |

[1] Measure of segment profit. See Section 13 of this MD&A.
[2] Non-GAAP financial measure. See Section 13 of this MD&A.
[3] Calculated using the weighted average number of common shares.
[4] For comparative purposes, sales and operating revenue and fuel and petroleum product adjusted gross profit (cpl) for the three months and year ended December 31, 2017 were restated for a reclassification from Commercial to Supply, reflecting a change in customer service delivery structure in 2018.

Over the last eight quarters, Parkland's quarterly results were primarily impacted by the Acquisitions. In particular:

- Sales and operating revenue increased significantly over the last six quarters due to the Ultramar Acquisition on June 28, 2017 and Chevron Acquisition on October 1, 2017. Higher fuel and petroleum product volumes and commodity prices over time also contributed to the increase. Sales and operating revenue is generally sensitive to fluctuations in commodity prices and energy markets.
- Exceptionally high refining margins drove strong results in the Supply segment and resulted in Adjusted EBITDA of $199 million for the fourth quarter of 2018, primarily as a result of robust refining crack spreads. Due to the rapid price decrease of both crude feedstock and refined products in the fourth quarter, Parkland also benefited from gains of $49 million and $20 million for the three months and year ended December 31, 2018 from Intermediation Facility Derivatives relating to the Burnaby Refinery, which flow through cost of purchases. Supply Adjusted EBITDA was lower in the third quarter of 2018 and fourth quarter of 2017 due to lower refining crack spreads, which are inherently volatile, and lower in the first quarter of 2018 due to the impact of the Burnaby Refinery shut down during the Turnaround.
- As a result of seasonality, Parkland typically experiences higher Retail Adjusted EBITDA and lower Commercial Adjusted EBITDA during the second and third quarters of the year compared to the rest of the year.
- Net earnings in 2018 were higher than in 2017 due to higher Adjusted EBITDA from the Ultramar, Chevron and Rhinehart Acquisitions, partially offset by increased depreciation and amortization, financing costs, and income tax expense, all largely attributable to the impact of these acquisitions.
- Total assets increased significantly in the last six quarters due to the debt and equity financing raised for the Ultramar, Chevron and Rhinehart Acquisitions, which closed on June 28, 2017, October 1, 2017 and August 27, 2018, respectively.
- Over the last five quarters, there were significant changes to the fuel and petroleum product adjusted gross profit for Retail and Commercial, primarily due to the Acquisitions, which have different operating models and operating model mixes, as further described in Section 4 of this MD&A.

## 6. DIVIDENDS, DISTRIBUTABLE CASH FLOW AND DIVIDEND PAYOUT RATIO

| ($ millions, unless otherwise noted) | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Adjusted EBITDA[1] | **285** | 198 | **887** | 418 |
| Amounts to reconcile Adjusted EBITDA to net earnings[2] | **(208)** | (149) | **(681)** | (336) |
| Net earnings | **77** | 49 | **206** | 82 |
| Amounts to reconcile net earnings to cash generated from operating activities[3] | **123** | 46 | **255** | 180 |
| Cash generated from operating activities | **200** | 95 | **461** | 262 |
| Reverse: Change in other liabilities and other assets | **43** | (13) | **43** | (14) |
| Exclude: Change in other liabilities - Intermediation Facility Derivatives | **(13)** | 9 | **(15)** | 9 |
| Reverse: Net change in non-cash working capital | **(28)** | 3 | **111** | (36) |
| | **202** | 94 | **600** | 221 |
| Include: Maintenance capital expenditures | **(52)** | (50) | **(187)** | (75) |
| Include: Proceeds on asset disposals | **1** | 1 | **3** | 5 |
| Distributable cash flow[5] | **151** | 45 | **416** | 151 |
| Reverse: Acquisition, integration and other costs | **24** | 41 | **77** | 84 |
| Reverse: Turnaround maintenance capital expenditures[6] | **–** | 16 | **75** | 16 |
| Adjusted distributable cash flow[5][6] | **175** | 102 | **568** | 251 |
| Weighted average number of common shares (millions) | **133** | 131 | **132** | 117 |
| Distributable cash flow per share[4][5] | **1.14** | 0.33 | **3.15** | 1.29 |
| Reverse: Acquisition, integration and other costs | **0.18** | 0.33 | **0.58** | 0.72 |
| Reverse: Turnaround maintenance capital expenditures[6] | **–** | 0.12 | **0.57** | 0.14 |
| Adjusted distributable cash flow per share[4][5][6] | **1.32** | 0.78 | **4.30** | 2.15 |
| Dividends | **41** | 39 | **159** | 138 |
| Dividend payout ratio[5] | **27 %** | 89 % | **38 %** | 91 % |
| Reverse: Acquisition, integration and other costs | **(4)%** | (44)% | **(6)%** | (32)% |
| Reverse: Turnaround maintenance capital expenditures[6] | **– %** | (7)% | **(4)%** | (4)% |
| Adjusted dividend payout ratio[5][6] | **23 %** | 38 % | **28 %** | 55 % |
| Dividends paid to shareholders, net of dividend reinvestment plan | **24** | 26 | **102** | 97 |

[1] Measure of segment profit. See Section 13 of this MD&A.
[2] Refer to Section 13 of this MD&A for a detailed reconciliation from Adjusted EBITDA to net earnings.
[3] Refer to the consolidated statements of cash flows in the Annual Consolidated Financial Statements for a detailed reconciliation.
[4] Calculated using the weighted average number of common shares.
[5] Non-GAAP financial measure. See Section 13 of this MD&A.
[6] 2017 adjusted distributable cash flow, its per share amount, and adjusted dividend payout ratio were revised to include Turnaround maintenance capital expenditures to conform to current year's presentation.

### Dividends

Dividends paid to shareholders for the fourth quarter of 2018 and for the year ended December 31, 2018 increased primarily due to an increase in the number of common shares outstanding driven by shares issued under the dividend reinvestment plan, stock option plan, and vesting of restricted share units, as well as growth in the dividend reinvestment plan participation rate. Furthermore, there was a $0.02 increase in annual dividend to $1.174 per share, effective March 22, 2018. The dividend reinvestment plan participation rate as at the dividend record date of December 21, 2018 was 37.0% (December 22, 2017 - 30.6%).

## Distributable cash flow, adjusted distributable cash flow, dividend payout ratio and adjusted dividend payout ratio

#### Q4 and Q4 YTD – 2018 vs. 2017

The dividend payout ratio improved by 62 percentage points to 27% for the fourth quarter of 2018 and by 53 percentage points to 38% for the year ended December 31, 2018 due to higher cash flow available for distribution in proportion to higher dividends declared. Distributable cash flow increased $106 million for the fourth quarter of 2018 and $265 million for the year ended December 31, 2018 primarily due to increases in Adjusted EBITDA of $87 million and $469 million, respectively, partially offset by higher maintenance capital expenditures primarily related to the Burnaby Refinery, including the Turnaround.

Excluding the impact of acquisition, integration and other costs and the maintenance capital expenditures related to the Turnaround, adjusted distributable cash flow increased $73 million for the fourth quarter of 2018 and $317 million for the year ended December 31, 2018 compared to their respective periods in 2017. The adjusted dividend payout ratio improved by 15 percentage points to 23% for the fourth quarter of 2018 and by 27 percentage points to 28% for the year ended December 31, 2018 primarily due to the increase in Adjusted EBITDA driven by the Acquisitions and exceptional results in the Supply segment.

# 7. LIQUIDITY

## Cash flows

The following table presents summarized information from the consolidated statements of cash flows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($ millions) | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| Cash generated from operating activities | **200** | 95 | 25 | **461** | 262 | 165 |
| Cash used in investing activities | **(135)** | (16) | (63) | **(494)** | (2,784) | (191) |
| Net cash generated (used) before financing activities | **65** | 79 | (38) | **(33)** | (2,522) | (26) |
| Cash (used in) generated from financing activities | **(46)** | (73) | 47 | **49** | 2,519 | 29 |
| Increase (decrease) in net cash | **19** | 6 | 9 | **16** | (3) | 3 |
| Impact of foreign currency translation on cash | **1** | — | — | **1** | — | 1 |
| Net cash, beginning of period | **20** | 17 | 17 | **23** | 26 | 22 |
| Net cash, end of period | **40** | 23 | 26 | **40** | 23 | 26 |

#### Operating activities

Cash flows from operating activities are used to fund maintenance capital expenditures, interest, income taxes and dividends. Excess cash flows from operating activities are also used to fund growth capital expenditures, acquisition of businesses, or debt repayment as appropriate. Parkland anticipates meeting payment obligations as they come due.

**Q4 2018 vs. Q4 2017**

Cash generated from operating activities was $200 million for the fourth quarter of 2018 primarily due to Adjusted EBITDA of $285 million, partially offset by $62 million of finance costs primarily from financing the Acquisitions and $24 million in acquisition, integration and other costs incurred primarily to integrate the Chevron Acquisition and in connection with the Sol Transaction. In contrast, operating activities generated $95 million of cash for the fourth quarter of 2017, primarily due to $198 million of Adjusted EBITDA, partially offset by $48 million of finance costs primarily related to financing the Acquisitions and $41 million of acquisition, integration and other costs relating to the closing and integration activities for the Acquisitions.

**2018 vs. 2017**

Cash generated from operating activities was $461 million for the year ended December 31, 2018 primarily due to Adjusted EBITDA of $887 million. This was partially offset by: (i) $171 million of finance costs largely related to financing of the Acquisitions, (ii) $111 million of non-cash working capital outflow primarily due to lower accounts payable, (iii) $77 million in acquisition, integration and other costs incurred largely to integrate the Acquisitions, and (iv) $64 million of income taxes paid. In contrast, operating activities generated $262 million for the year ended December 31, 2017, primarily due to the Adjusted EBITDA of $418 million, partially offset by $90 million of finance costs largely related to financing of the Acquisitions and $84 million in acquisition, integration and other costs incurred primarily to close the Acquisitions.

### Investing activities

Parkland's investing activities primarily consist of business acquisitions and additions to property, plant and equipment and intangible assets through maintenance and growth capital expenditures. Parkland will continue to acquire prudently as attractive investment opportunities arise. Moreover, investments in growth and maintenance capital expenditures are expected to support our ability to grow our existing businesses organically over the coming years.

**Q4 2018 vs. Q4 2017**

During the fourth quarter of 2018, investing activities used $135 million of cash primarily due to: (i) $90 million capital expenditures paid largely for growth and maintenance projects in the Retail segment and maintenance projects at the Burnaby Refinery, and (ii) $40 million used for the acquisition of individually immaterial businesses complementary to Parkland's existing lines of business. In contrast, the $16 million used in investing activities for the same period in 2017 was primarily due to $52 million of capital expenditures to support growth and operations. This was partially offset by the $42 million net amount generated from the Chevron Acquisition closing activities as a result of the change in cash held in escrow exceeding the Chevron Acquisition purchase price by $42 million, representing the amounts paid for closing costs, which are considered operating activities.

**2018 vs. 2017**

During the year ended December 31, 2018, investing activities used $494 million of cash primarily due to $285 million of capital expenditures mainly for the Turnaround, other maintenance projects at the Burnaby Refinery, and Retail site construction, rebrands and refreshes. In addition, $176 million was used for the Rhinehart Acquisition and $44 million was incurred for other acquisitions. In contrast, the $2,784 million used in investing activities in 2017 was primarily attributable to: (i) $1,710 million for the Chevron Acquisition, (ii) $980 million for the Ultramar Acquisition, and (iii) $97 million of capital expenditures to support growth and operations.

### Financing activities

Parkland has a disciplined approach to capital investment decisions that prioritizes the use of cash flow first to committed capital investment, and then to growth opportunities, while paying sustainable and attractive dividends to shareholders. Although Parkland's cash flow typically has seasonal fluctuations, Parkland's Board of Directors currently intends to pay consistent regular monthly dividends throughout the year based on estimated annual cash flow. In their dividend review, the Board of Directors considers current financial performance, historical and future trends in the business, expected sustainability of those trends, and capital levels required to sustain Parkland's financial performance. The declaration and payment of dividends is at the discretion of Parkland's Board of Directors.

Distributable cash is not assured and the actual amount received by shareholders depends on, among other things, Parkland's financial performance, debt covenants and obligations, working capital requirements, future capital requirements, and the deductibility of items for income tax purposes, all of which are susceptible to a number of risks.

**Q4 2018 vs. Q4 2017**

During the fourth quarter of 2018, financing activities used $46 million of cash, primarily attributable to cash dividends paid of $24 million and a $93 million decrease in the Intermediation Facility liability partially offset by net long-term debt proceeds of $57 million, which includes the issuance of the $300 million 6.50% Senior Notes on November 21, 2018 and repayments of the Credit Facility at that time. In contrast, the $73 million of cash used during the fourth quarter of 2017 was primarily attributable to cash dividends paid of $26 million and the net debt repayment of $347 million partially offset by a $301 million increase in the Intermediation Facility liability.

Cash dividends paid, net of the dividend reinvestment plan, decreased $2 million to $24 million compared to the same period in 2017 due to an increase in the dividend reinvestment plan participation rate from 30.6% to 37.0%. During the fourth quarter of 2018, Parkland paid a monthly dividend of $0.0978 per share (2017 – $0.0962 per share).

**2018 vs. 2017**

During the year ended December 31, 2018, Parkland generated $49 million of cash from financing activities consisting of $1,131 million proceeds from long-term debt, which includes the $655 million proceeds from the issuance of the 6.00% US Senior Notes and $300 million proceeds from the issuance of the 6.50% Senior Notes. This was partially offset by $935 million in repayments of the Credit Facility, $102 million in cash dividends paid, and a $59 million decrease in the Intermediation Facility liability. In contrast, during the year ended December 31, 2017, Parkland generated $2,519 million of cash, primarily from $630 million net proceeds of the equity offering, $527 million proceeds from cash held in escrow upon closing of the Ultramar Acquisition, $500 million proceeds from the issuance of the 5.625% Senior Notes, $301 million increase in the Intermediation Facility liability, and drawings on the Credit Facility.

Cash dividends paid, net of the dividend reinvestment plan, increased $5 million to $102 million for the year ended December 31, 2018 due to additional outstanding common shares and dividends paid per share. During the year ended December 31, 2018, Parkland paid a monthly dividend ranging from $0.0962 per share to $0.0978 per share (2017 – $0.0945 per share to $0.0962 per share).

## Contractual commitments

Parkland has contracted obligations under various debt agreements, operating leases, capital leases, capital expenditures and other contractual commitments exceeding a five-year period. The following table provides an analysis of contractual maturities for financial liabilities:

| December 31, 2018 ($ millions) | Less than one year | Years 2 and 3 | Years 4 and 5 | Thereafter | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 806 | – | – | – | 806 |
| Dividends declared and payable | 14 | – | – | – | 14 |
| Risk management and other derivative liabilities | 7 | – | – | – | 7 |
| Long-term debt commitments[1] | 146 | 565 | 435 | 2,004 | 3,150 |
| Other liabilities | 275 | 39 | – | 2 | 316 |
| Obligations under operating leases | 60 | 82 | 54 | 124 | 320 |
| Contractual commitments for property, plant and equipment | 62 | 3 | – | – | 65 |
| | 1,370 | 689 | 489 | 2,130 | 4,678 |

[1] Includes undiscounted principal, interest and finance lease obligations.

### Fuel and petroleum products and other purchase commitments

In addition to the commitments in the above table, Parkland has entered into purchase orders and contracts during the normal course of business for the purchase of goods and services, which may terminate on short notice. Such obligations include commodity purchase obligations transacted at market prices. Furthermore, Parkland has entered into various purchase agreements that require it to purchase minimum amounts or quantities of fuel and petroleum products over certain time periods, which vary based on volumes and other factors. Parkland has generally exceeded such minimum requirements in the past and expects to continue doing so for the foreseeable future. Failure to satisfy the minimum purchase requirements could result in the termination of the contracts, change in pricing of products and payments to the applicable suppliers of a predetermined amount of the commitments.

## Acquisition commitments

As at December 31, 2018, Parkland had contractual commitments to complete the Sol Transaction. On January 8, 2019, Parkland completed the Sol Transaction, acquiring 75% of the outstanding shares of Sol for preliminary purchase consideration of $1,459 million. The Sol Transaction was primarily funded through the Amended Credit Facility (see Section 8 of this MD&A) and issuance of 12.2 million common shares. The Sol Transaction includes a non-expiring put right for Sol Limited to sell and a call right for Parkland to acquire the remaining outstanding shares of Sol at a proportionate purchase price based on Sol's trailing-twelve-month Adjusted EBITDA multiplied by 8.5 and other adjustments calculated pursuant to the agreement. Parkland will have the non-expiring right to refuse the exercise by Sol Limited of its put right on up to two occasions. See Section 3 of this MD&A and Note 26 of the Annual Consolidated Financial Statements for further details on the Sol Transaction.

## 8. CAPITAL RESOURCES

## Available sources of liquidity

Parkland's sources of liquidity as at December 31, 2018 are cash and cash equivalents as well as available funds under its Credit Facility and Intermediation Facility. While it is typical for Parkland's cash flows to have seasonal fluctuations, such fluctuations do not materially impact Parkland's liquidity and management believes cash flow from operations will be adequate to fund maintenance capital expenditures, interest, income taxes and targeted dividends. Growth capital expenditures in the next twelve months will be funded by cash flows from operations, proceeds from debt and equity offerings, and available borrowing capacity under the Credit Facility. Any future acquisitions will be funded by cash flows from operations, the Credit Facility, and issuance of new debt or new shares. Any additional debt incurred will be serviced by the anticipated increases in cash flow and will only be borrowed within Parkland's debt covenant limits.

Parkland manages its capital structure and makes adjustments for market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, Parkland may adjust capital spending, adjust dividends paid to shareholders, issue new shares, issue new debt, repay existing debt, adjust the Credit Facility, enter into an Intermediation Facility, or enter into other credit arrangements.

The following table provides a summary of available cash and cash equivalents and unused credit facilities:

| ($ millions) | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | **40** | 23 |
| Unused credit facilities | **449** | 202 |
| | **489** | 225 |

### Credit Facility

On March 29, 2018, Parkland amended its revolving extendible credit facility (the "Credit Facility") to reduce the Canadian Syndicated Facility from $1 billion to $500 million. The Credit Facility is extendible each year for a rolling four-year period at Parkland's option, subject to approval by its lenders. As at December 31, 2018, the Credit Facility consists of: (i) $500 million for the Canadian Syndicated Facility and US$50 million for the US Syndicated Facility, less the value of letters of credit issued, and (ii) letters of credit to a maximum of $200 million and US$25 million. On August 15, 2018, the Canadian Syndicated Facility was temporarily increased by $100 million through establishing a non-revolving short-term debt facility that was fully repaid by November 27, 2018.

### Amended Credit Facility

On January 8, 2019, in connection with the Sol Transaction, the Credit Facility was amended and restated to expand the available facility and extend the maturity date (the "Amended Credit Facility"). The Amended Credit Facility includes a combined revolving facilities amount of US$780 million and $400 million with a maturity date of January 8, 2023, a term loan facility amount of US$250 million with a maturity date of January 8, 2021, and a short term commitment facility of US$100 million with a maturity date of April 8, 2019. The revolving facilities are extendible each year for a rolling four-year period at Parkland's option, subject to approval by the lenders. Security on the Amended Credit Facility consists of the assignment of insurance and priority interests on all present and future Parkland properties and assets.

### Senior Notes

The following table provides a summary of Parkland's Senior Notes as at December 31, 2018 ($ millions):

| Series | Private placement date | Maturity date | Principal amount |
|---|---|---|---|
| 5.50% Senior Notes | May 29, 2014 | May 28, 2021 | **200** |
| 6.00% Senior Notes | November 21, 2014 | November 21, 2022 | **200** |
| 5.75% Senior Notes | September 16, 2016 | September 16, 2024 | **300** |
| 5.625% Senior Notes | May 9, 2017 | May 9, 2025 | **500** |
| 6.00% US Senior Notes | March 23, 2018 | April 1, 2026 | **682** |
| 6.50% Senior Notes | November 21, 2018 | January 21, 2027 | **300** |
| | | | **2,182** |

### Intermediation Facility

On October 6, 2017, Parkland entered into an International Swaps and Derivatives Association ("ISDA") intermediation agreement with a financial institution (the "Intermediation Facility") to fund a portion of the working capital requirements of the Burnaby Refinery. On January 31, 2018, the Intermediation Facility was amended to extend the expiry to December 31, 2019. The Intermediation Facility involves structured purchases and sales of crude oil, refined products and other hydrocarbons (collectively, "Hydrocarbons"). The amended Intermediation Facility has a funding limit of: (i) up to US$125 million of accounts receivable balances and (ii) the cost of Hydrocarbon inventory volumes up to 2,740 Mbbls. The Intermediation Facility is secured by Hydrocarbons and accounts receivable balances funded under the Intermediation Facility on a first-lien basis. The Intermediation Facility also contains Intermediation Facility Derivatives, which are further described in Section 9 of this MD&A.

### Base shelf prospectus

On July 17, 2018, Parkland filed a base shelf prospectus ("Shelf Prospectus") for common shares, preferred shares, subscription receipts, warrants, debentures, notes and other evidence of indebtedness, as well as units comprised of one or more of the aforementioned (collectively, the "Securities") with an aggregate offering amount of up to $1 billion. The Shelf Prospectus allows for the offering of the Securities from time to time in one or more offerings. Terms of the Securities, including, but not limited to, prices or maturity dates, will be determined at the date of issue. The Shelf Prospectus expires in August 2020. As at February 28, 2019, no Securities have been issued under the Shelf Prospectus. The previous base shelf prospectus dated April 11, 2016 expired in May 2018.

### Dividend reinvestment plan

Parkland's dividend reinvestment plan is a means to incrementally raise equity capital for growth and other corporate purposes at a low cost. In addition to the option of receiving a monthly cash dividend of $0.0978 per share, the dividend reinvestment plan allows shareholders to purchase shares with their dividend at a 5% discount to the volume weighted average price as defined under the plan. In 2018, the dividend reinvestment plan contributed $55 million of shareholders' capital, net of costs (2017 - $37 million) and 1.6 million shares were issued in 2018 (2017 - 1.4 million shares).

## Maintenance capital expenditures and growth capital expenditures

The following table provides a summary and reconciliation of maintenance and growth capital expenditures:

| | **Three months ended December 31,** | | **Year ended December 31,** | |
|---|---|---|---|---|
| ($ millions) | **2018** | 2017 | **2018** | 2017 |
| **Growth capital expenditures** | | | | |
| Retail | **43** | 11 | **81** | 18 |
| Commercial | **10** | 4 | **19** | 10 |
| Supply | **—** | — | **1** | 7 |
| Parkland USA | **—** | — | **—** | — |
| Corporate | **4** | — | **8** | — |
| Growth capital expenditures | **57** | 15 | **109** | 35 |
| **Maintenance capital expenditures** | | | | |
| Retail | **16** | 9 | **30** | 15 |
| Commercial | **9** | 3 | **20** | 11 |
| Supply | **23** | 33 | **129** | 35 |
| Parkland USA | **4** | 2 | **7** | 5 |
| Corporate | **—** | 3 | **1** | 9 |
| Maintenance capital expenditures | **52** | 50 | **187** | 75 |
| Additions to property, plant and equipment and intangible assets | **109** | 65 | **296** | 110 |

During the three months and year ended December 31, 2018, Parkland's combined growth and maintenance capital expenditures increased $44 million and $186 million, respectively, compared to the same periods in 2017. The increase in growth capital expenditures is primarily due to construction of new-to-industry Retail sites as well as Retail station rebrands and refreshes, including investments in the new On the Run / Marché Express store concepts. The increase in maintenance capital expenditures is primarily attributable to the Supply segment for Turnaround costs and other ongoing maintenance projects at the Burnaby Refinery as well as maintenance projects at various Retail sites. Other major capital expenditure activities in 2018 include equipment purchases to support the integration of the Acquisitions as well as fleet and equipment purchases to support new and existing customer contracts.

### Committed capital expenditures

Contractual commitments for the acquisition of property, plant and equipment as at December 31, 2018 were $65 million (December 31, 2017 – $58 million). These contractual commitments relate primarily to ongoing maintenance projects at the Burnaby Refinery, and building new and upgrading existing retail service stations, including projects to retrofit and rebrand the On the Run / Marché Express brand. We plan to fund these commitments using cash and cash equivalents, cash flows from operations, and available borrowing under the Credit Facility, as required.

Parkland believes that the current capital programs based on the present state of its assets, opportunities, the outlook for fuel supply, and demand and industry conditions are sufficient to maintain productive capacity in the medium term. Due to the risks inherent in the industry, particularly the reliance on external parties to supply fuel and propane, general economic conditions, and weather that affects customer demand, there can be no assurance that the capital programs will be sufficient to maintain or increase production levels or cash flows from operating activities.

## Financial covenants and metrics

As at December 31, 2018, Parkland was in compliance with all debt covenants. Debt covenant ratios are tested on a trailing-twelve-month basis. The financial covenants of the Credit Facility are as follows:

| | Ratio | Covenant restriction | Management long-term target | Actual debt covenant ratios as at December 31, 2018 | December 31, 2017 |
|---|---|---|---|---|---|
| 1. | Senior Funded Debt to Credit Facility EBITDA ratio | < 3.50 at Q1 and Q4 and first two full quarters following a material acquisition, and < 3.00 at Q2 and Q3 | < 3.50 at Q1 and Q4 and first two full quarters following a material acquisition, and < 3.00 at Q2 and Q3 | **0.09** | 1.07 |
| 2. | Total Funded Debt to Credit Facility EBITDA ratio | < 5.00 each quarter until and including Q1 2019, and < 4.50 each quarter from and after Q2 2019 | 2.00 - 3.50 | **2.47** | 2.62 |
| 3. | Interest coverage ratio | > 3.00 | > 3.00 | **6.52** | 7.65 |

The Senior Funded Debt and Total Funded Debt to Credit Facility EBITDA ratios are well below the covenant restrictions of 3.50 and 5.00, respectively. Refer to Section 13 of this MD&A for the calculation of Parkland's debt covenants.

# 9. RISK FACTORS

## Key business risks

Parkland is exposed to a number of risk factors through the pursuit of strategic objectives and the nature of our operations. We use a proactive approach for enterprise risk management to enable decision-making through the consistent identification of risks inherent to our activities.

Parkland performs an annual company-wide risk assessment using a systematic approach led by the risk team that includes representatives from Parkland's senior leadership team, senior management team and individuals across the business. Current risks are assessed using Parkland's uniform company-wide risk matrix and additionally classified based on residual risk from "incidental" to "extreme". Furthermore, emerging risks are identified. Risks are initially assessed on an inherent basis, without consideration for controls or mitigating factors, and then reassessed considering controls and mitigating factors resulting in a final residual risk ranking. Parkland also assesses the velocity of risks to measure the time it takes for a risk event to manifest itself, enabling management to effectively develop risk response plans and prioritize resources. There are determined levels of accountability, responsibility and ownership for each risk based on an escalating scale. On a quarterly basis, key residual risk exposures are reassessed by divisional risk champions. In 2018, Parkland conducted a Board enterprise risk management assessment in order to incorporate the Board's views on key risks to which Parkland is exposed. Furthermore, Parkland has a Code of Conduct in place that includes a process to allow employees to anonymously report ethical concerns.

Parkland's key risks, in terms of severity of consequence and likelihood, are summarized into groups as follows:

| Risk Ranking Matrix | | IMPACT | | | | | |
|---|---|---|---|---|---|---|---|
| | | Incidental | Minor | Moderate | Major | Extreme | |
| LIKELIHOOD | Frequent / Almost Certain | III | II (4) | II | I | I | I - Exceeds Parkland's risk threshold and requires immediate action to reduce the risk or discontinue the applicable business operation to avoid the risk. |
| | Likely | III | III | II (3)(5)(6)(7) | II | I | II - Risks that require oversight by senior management to monitor effectiveness of management systems. |
| | Possible | IV | III | III | II (1)(8)(9) | II | III - Acceptable risks with strong management systems and contingency plans in effect. |
| | Unlikely | IV | IV | III | III | II (2)(10) | IV - Acceptable risks that are not expected to escalate in severity. |
| | Rare | IV | IV | IV | III | III | |

Current investors and prospective purchasers of Parkland's securities should consider carefully the following risk factors, as well as the other information contained in documents filed by Parkland pursuant to applicable securities laws, including our Annual Information Form. If any event arising from these risks occurs, our business, prospects, financial condition, results of operations or cash flows, the value and trading price of Parkland's securities and its ability to pay dividends could be materially adversely affected.

Security holders and prospective security holders of Parkland should carefully review and consider the risk factors set out below, as well as all other information contained and incorporated by reference in this MD&A before making a decision on investment and should consult their own experts where necessary.

### (1) Risks relating to acquisitions

**Significant acquisition and related costs**

Parkland has incurred a number of costs associated with acquisitions and expects to incur additional costs related thereto. The majority of such costs will be non-recurring expenses related to acquisitions consisting of transaction costs, facilities and systems consolidation costs, and employment-related costs. Additional unanticipated costs may be incurred in the integration of the Chevron and Ultramar assets, operations and businesses, which may negatively impact Parkland's results of operations.

**Failure to realize the anticipated benefits of acquisitions**

Achieving the full benefits of any acquisition includes, but is not limited to: timely and efficient consolidation of functions; integration of operations, procedures and personnel; and the ability to realize the anticipated growth opportunities, synergies and operating expense reductions.

The integration of newly acquired assets is supported by the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and other operational matters during this process. Notwithstanding Parkland's commitment to providing the labour and resources required to support the integration of newly acquired assets, there is a risk that the anticipated benefits of any given acquisition may not be fully realized if Parkland is unable to fully address and mitigate the risks of the integration process, including the loss of key employees and the disruption of ongoing business, supplier, customer and employee relationships.

Further, achieving the benefits of the Sol Transaction depends, in part, on successfully optimizing Sol's supply and distribution channels, attracting and retaining qualified employees, and the adoption of Parkland's KPI-driven culture in the cultural settings where Sol operates. These factors may adversely affect Parkland’s ability to achieve the anticipated benefits of the Sol Transaction and financial projections related thereto.

**Country risk**

The businesses operated by Sol are subject to the risks normally associated with any business conducted in emerging markets including political or social unrest, changes in laws and regulations, changes in the tax regimes, uncertainty regarding the enforceability of contractual, property, and other legal rights in local courts, unpredictable government actions, and delays in obtaining or the inability to obtain necessary governmental permits or the reimbursement of refundable tax from fiscal authorities. These risks may negatively impact operations and revenues. The economic and political systems of certain jurisdictions in which Sol operates are less predictable than in countries such as Canada and the US, resulting in an increased risk of sudden and unforeseen regulatory changes or governmental or administrative action that could have a material and adverse effect on Parkland's future cash flows, earnings, results of operations and/or financial condition. Moreover, some of these jurisdictions present an increased risk of incidents of bribery, collusion, kickbacks, theft, improper commissions, facilitation payments, conflicts of interest and related party transactions, and may require additional compliance procedures with applicable anti-corruption legislation including the US Foreign Corrupt Practices Act and the Canadian Corruption of Foreign Public Officials Act. Parkland's failure to identify, manage and mitigate instances of fraud, corruption, violations of its Code of Conduct, or applicable legislative and regulatory requirements increase the risk that Parkland may be implicated in such incidents. Collectively, these risks could result in a disruption of Parkland's operations, increase costs to Parkland, and could have a material adverse effect on Parkland's business, financial condition, and results of operations.

**Severe weather risk**

The Sol assets are located in the Caribbean and are therefore subject to the risks associated with severe tropical storms, hurricanes, earthquakes and volcanic eruptions, which may cause downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Such weather conditions and natural disasters may negatively impact operations in the region and Parkland's ability to realize the anticipated growth opportunities and synergies with respect to the Sol Transaction.

**Operating in new jurisdictions**

The Sol assets operate in jurisdictions that are new to Parkland. As is the case with any new jurisdiction, Parkland must familiarize itself with the relevant legislation and regulations of the new jurisdiction including local labour laws and environmental laws. While Parkland will benefit from the experience and expertise of Sol's management and employees, acclimatizing to new jurisdictions may be an expensive and resource-intensive process.

**Potential undisclosed liabilities associated with acquisitions**

In pursuing acquisitions, Parkland conducts due diligence on the businesses or assets being acquired and seeks detailed representations and warranties with respect to these businesses or assets. Despite such efforts, there can be no assurance that Parkland will not become subject to undisclosed liabilities or litigation as a result of acquisitions, including, but not limited to, undisclosed and unknown liabilities related to acquisitions. In addition, liabilities may exist which were not discovered during the due diligence process prior to completing an acquisition. This failure to discover potential liabilities may be due to various factors, such as failure to accurately assess all of the pre-existing liabilities of the operations acquired or vendors failing to comply with applicable laws. If this occurs, Parkland may be responsible for such liabilities, which could materially and adversely affect its business, prospects, results of operations and/or financial condition.

**IT integration risks**

Large-scale acquisitions require the integration of one or more systems into Parkland's overall information technology platform. The integration of different IT systems is a technical process requiring the coordination of specialized employees, time and resources, often across multiple jurisdictions. Unanticipated costs, delays, and unforeseen technical issues and limitations may arise in connection with Parkland's integration of its IT systems and could disrupt the flow of information, cause loss of data records, or delay Parkland's ability to realize the anticipated benefits of an acquisition. As Parkland's IT systems become increasingly integrated, there is an increased risk that a failure in one system could affect another system in the infrastructure.

**Increased leverage**

Parkland has incurred additional borrowings in connection with the recent acquisitions. Such borrowings represent a material increase to Parkland's consolidated indebtedness, which increased our interest expense and debt service obligations, and may have a negative effect on our results of operations. The increased leverage could have other important consequences for purchasers, including the following:

- it may limit Parkland's ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- it may limit Parkland's ability to declare dividends on its common shares;
- certain of Parkland's borrowings are at variable rates of interest and expose Parkland to the risk of increased interest rates;
- it may limit Parkland's ability to adjust to changing market conditions and place Parkland at a competitive disadvantage compared to its competitors that have less debt;
- Parkland may be vulnerable in a downturn in general economic conditions; and
- Parkland may be unable to make capital expenditures that are important to its growth and strategies.

**Operational risks relating to acquisitions**

The risk factors set forth in the Annual Information Form relating to the business and the operations of Parkland apply equally in respect of acquisitions.

### (2) Economic crude supply

Refining gross margins are primarily driven by commodity prices and are a function of the difference between the costs of feedstock (primarily crude oil) and market prices for the marketing of finished products (such as gasoline, diesel, jet fuel, lubricants, fuel oil, fuel and lubricant additives). Prices for commodities are determined by global and regional marketplaces and influenced by many factors including supply/demand balances, inventory levels, industry refinery operations, currency fluctuations, seasonal demand, political climate, disruptions at the Burnaby Refinery resulting from unplanned outages due to severe weather, fires or other operational events, and plant capacity utilization.

The Burnaby Refinery crude supply is predominantly Alberta light crude transported by the Trans Mountain Pipeline ("TMPL") common carrier as regulated by the National Energy Board and operates under published tariffs. Under various market conditions, the Burnaby Refinery could see variability in its crude deliveries from TMPL as the capacity on the pipeline fluctuates from time to time based on operating conditions and planned and/or unplanned maintenance. To manage month to month variability, Parkland has established systems, processes and resources to make the most economic supply decisions within the logistical and operational constraints. Safety of operation is of first priority, with optimization decisions always driven by economics. In addition to the TMPL line capacity, the Burnaby Refinery has the ability to receive material volumes of crude by rail, truck, and marine as needed.

### (3) Risks relating to scheduled and unscheduled maintenance

The Burnaby Refinery consists of several processing units, each of which is to undergo scheduled maintenance events every five to ten years. One or more of the units may require additional unscheduled downtime for unanticipated maintenance or repairs. Scheduled and unscheduled maintenance reduces Parkland's revenue and increases operating costs during the period of time that the processing units are not operating and, among other things, could reduce our ability to make distributions or pay debt obligations. Furthermore, material unanticipated costs and delays may be incurred in scheduled and unscheduled maintenance, which may negatively impact our results of operations.

### (4) Public utility power supply

Parkland does not have full control over the supply of power or water to the Burnaby Refinery. As such, an operational risk for the Burnaby Refinery is the availability of sufficient power, natural gas, and water supplies to support refinery operations. Interruption of power, natural gas, or water could adversely affect operations.

### (5) Health, Safety and (6) Environment

Parkland is subject to hazards and risks inherent in our operations and the industries we service. Such risks include, but are not limited to: equipment failures; vehicle accidents; human error; accidental release of harmful substances including through transportation of petroleum products by road, rail, barge and pipeline and proximity to marine environments; explosions; toxic emissions releases; fires; and natural disasters. These risks expose Parkland to potential liability for personal injury, debilitating injury or loss of life, business interruption, property damage or destruction, and pollution and other environmental damages under applicable federal, provincial, territorial, state and municipal safety and environmental laws and regulations. A significant environmental incident involving a release of crude oil, liquid petroleum products, chemicals or other hazardous substances into marine or other environments could result in losses in excess of the insurance coverage currently maintained and could have a material adverse impact on Parkland's business, financial condition, reputation and results of operations. Refer to the "Environmental risks relating to refinery operations" subsection of this Risk Factors section for further discussion on environmental risks.

Parkland has a Health, Safety and Environmental ("HS&E") management system in place that establishes safety leadership, employee awareness and training, hazard recognition and mitigation, as well as various controls, systems processes and tools to mitigate these risks and to be prepared to respond and remediate in the event Parkland experiences any such occurrences. Parkland has also obtained insurance in accordance with industry practice in an effort to address and mitigate such risks, and has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure. Although Parkland has a comprehensive insurance program in effect, there can be no assurance that the potential liabilities will not exceed the applicable coverage limits under our insurance policies. Consistent with industry practice, not all hazards and risks are covered by insurance and no assurance can be given that insurance will be consistently available or available on an economically feasible basis. Parkland maintains insurance coverage for most environmental risk areas, excluding underground tanks at service stations. Although not insured, these risks are managed through ongoing monitoring, inventory reconciliations and tank replacement programs. Liability for uninsured risks could significantly increase expenses and the occurrence of a significant event for which Parkland is not fully insured could materially and adversely affect Parkland's business, prospects, results of operations and financial condition.

Parkland is committed to ensuring a safe and healthy working environment that protects its employees, customers and the environment. As part of this commitment, Parkland's HS&E program includes comprehensive policies and procedures designed to manage and mitigate risks. Additionally, employees actively engage in safety initiatives through monthly HS&E committees representing all areas of Parkland's business. For example, Parkland launched its "Drive to Zero" program in 2014 with the objective of achieving zero injuries and zero serious incidents. In addition, Parkland is advancing risk, contractor safety and process safety management initiatives to further reduce related risks and advance our maturity in these areas.

**Environmental risks relating to refinery operations**

Refinery operations are subject to environmental regulation under federal and provincial legislation, regulations and initiatives, including ones designed to reduce greenhouse gas emissions, which may increase costs and adversely affect Parkland's ability to operate the Burnaby Refinery.

Parkland may be adversely affected by federal and provincial legislations, regulations and initiatives designed to reduce greenhouse gas emissions, which may increase costs and adversely affect our ability to operate the Burnaby Refinery. There are international agreements (e.g. Paris Climate Agreement and Kyoto Protocol), national agreements (e.g. carbon tax, cap-and-trade or efficiency standards) and provincial legislation (e.g. British Columbia's Greenhouse Gas Industrial Reporting and Control Act) that aim to limit or reduce greenhouse gas emissions and are currently in various stages of implementation. The ultimate effect of such greenhouse gas legislations, regulations and initiatives on Parkland's operation of the Burnaby Refinery, and the timing of these effects, will depend on a number of factors. Such factors include, among others, the sectors covered, the greenhouse gas emission reductions required, the extent to which Parkland would be entitled to receive emission allowance allocations or would need to purchase compliance instruments on the open market or through auctions, the price and availability of emission allowances and credits, and the extent to which Parkland is able to recover the costs incurred through the pricing of its products in the competitive marketplace.

Commodity storage, refining and transportation activities involve numerous risks that may result in environmental damage or otherwise adversely affect Parkland's operations. Environmental risks inherent in the storage, refining and transportation of crude oil and other petroleum products include, but are not limited to, accidental spills or releases of crude oil, liquid petroleum products, chemicals or other hazardous substances. The occurrence or continuance of such risks could result in significant environmental pollution; damage to local property, wildlife populations and natural resources; impairment or suspension of operations at the Burnaby Refinery; curtailment of offshore shipping activity; modifications to or revocation of existing regulatory approvals; fines; and serious reputational damage to Parkland, any of which could materially and adversely affect Parkland's business, prospects, results of operations and/or financial condition. The consequences of an accidental spill or release at or near any marine terminal used in connection with the Burnaby Refinery's operations could be even more significant, given the complexities of addressing releases occurring in marine environments and along populated coastlines. Although Parkland does not own or operate the vessels used to transport crude oil, liquid petroleum products, chemicals or other hazardous substances to and from such marine terminals, releases or other incidents involving such vessels could result in significant disruptions to offshore shipping activities and may impede Parkland's ability to operate in any affected areas.

**(7) Regulatory risk**

Parkland operates in highly regulated jurisdictions in multiple countries. Failure to appropriately operate within each regulatory jurisdiction could lead to fines, penalties and unfavourable tax assessments that could adversely affect our business and our operating results. Inability to comply with these laws and regulations can have a material adverse effect on our operating results and financial condition. Furthermore, transportation fuel sales are taxed by the federal, provincial, state and, in some cases, municipal governments. Material increases in taxes, changes to environmental regulations, or changes in tax legislation are possible and could have a material effect on our profitability.

Parkland has put in place mitigation efforts by hiring qualified personnel who are members of professional and industry associations and experienced in overseeing compliance requirements. Parkland will continue to strengthen in-house expertise through ongoing hiring and training. However, any changes in the laws or regulations that are adverse to us or our properties could affect our operating and financial performance. In addition, new regulations are proposed from time to time, which, if adopted, could have a material adverse effect on our operating results and financial condition.

**(8) Competition law compliance**

Parkland is increasingly subject to scrutiny from regulatory bodies as a result of ongoing high profile acquisitions and its growing size. As Parkland grows and acquires businesses, it becomes increasingly challenging and complex to monitor compliance with the Competition Act.  This includes monitoring the dissemination of competitively sensitive information and managing channel conflict within Parkland. Furthermore, failure to comply with the Competition Act could require us to divest certain assets or result in Parkland being subject to other remedies such as margin controls in certain markets. Such remedies could have a material adverse effect on our operating results and financial condition.

The risk is partially mitigated by training and awareness programs, retention of key people from the Acquisitions, compliance certificates executed by key people and the appointment of a compliance officer to implement policies and procedures. Additionally, Parkland employees are subject to internal and external ethical standards, including the Code of Conduct.

**(9) IT systems**

At the operational level, Parkland relies on electronic systems for recording sales and accumulating financial data. A major breakdown of computer systems would disrupt the flow of information and could cause a loss of records. The conversion and upgrade of electronic systems or IT integration of the Acquisitions could also result in lost or corrupt data, which could impact the accuracy of financial reporting and management information. Parkland mitigates this risk by operating redundant data centres to ensure business continuity in case of unforeseen events and has safeguards in place to mitigate cyber security threats. Additionally, Parkland has specific programs to ensure compliance and adherence to regulatory guidelines as well as controls in place to ensure the privacy of customer and payment information.

Parkland continues to invest in technologies to support its current business and the Acquisitions. Parkland utilizes best practices in its IT operations to consistently and securely support its stakeholders and is continuously improving its methodologies to integrate people, processes and technologies across our enterprise. Refer to the " Risks relating to acquisitions" subsection of this Risk Factors section for further discussion on IT integration risks.

### (10) Trans Mountain Pipeline integrity

As the main supply source for the Burnaby Refinery, the TMPL infrastructure is over 50 years old and as such it could be subject to disruption for maintenance activities. Any unplanned shutdown in the pipeline or terminal will result in potential supply shortages at the Burnaby Refinery. Parkland is working to enable additional methods of economical crude supply to the Burnaby Refinery.

## Financial instruments and financial risks

### Financial instruments recorded at fair value through profit or loss

Parkland's financial instruments recorded at fair value through profit or loss include commodities swaps, forwards and futures contracts, US dollar forward contracts, Intermediation Facility Derivatives, emission credits and allowances, and Redemption Options.

**Commodities swaps, forwards and futures contracts and US dollar forward contracts**

Commodities swaps, forwards and futures contracts and US dollar forward contracts are recorded in risk management and other derivatives. Parkland periodically enters into derivative contracts that are believed to be economically effective at managing exposure to movements in commodity prices and US dollar exchange rates. While these derivative contracts form a component of Parkland's overall risk management program, only the US dollar forward window contract to hedge the foreign currency risks related to the US dollar purchase price of the Sol Transaction (the "Sol Transaction Hedge") is accounted for as a cash flow hedge. On January 8, 2019, the Sol Transaction Hedge contract was exercised in connection with the closing of the Sol Transaction. See Note 13 of the Annual Consolidated Financial Statements for further details on the Sol Transaction Hedge.

**Intermediation Facility Derivatives**

On March 1, 2018, the Intermediation Facility was amended to include a daily settlement feature, which is accounted for as a derivative financial instrument carried at fair value (the "Intermediation Facility Derivatives"). Parkland believes the Intermediation Facility Derivatives to be economically effective at managing exposure to movements in commodity prices. See Section 8 of this MD&A and Note 17 of the Annual Consolidated Financial Statements for discussion of the Intermediation Facility.

**Emission credits and allowances**

Emission credits and allowances that are held for trading and meet the definition of a derivative are accounted for using the fair value method of accounting.

**Redemption Options**

The Senior Notes contain Redemption Options that allow Parkland to redeem the notes prior to maturity at a premium. The Redemption Options are accounted for as an embedded derivative financial instrument. For more information on Parkland's financial instruments and related financial risk factors, see Note 13 of the Annual Consolidated Financial Statements.

### Fair value measurement

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

- Level 1 - Quoted (unadjusted) prices 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 (as prices) or indirectly (derived from prices); and
- Level 3 - Inputs that are not based on observable market data (unobservable inputs).

The fair values of Parkland's recurring measurements of the commodities swaps and forward contracts, futures contracts, US dollar forward contracts, Redemption Options and Intermediation Facility Derivatives were determined based on Level 2 inputs. Parkland used the following techniques to value financial instruments categorized in Level 2:

- fair values of the outstanding NYMEX New York Harbour or WTI to heating oil, gasoline and refined products put and call option contracts are determined using external counterparty information, which are compared to observable data;
- fair values of commodities forward contracts, futures contracts, US dollar forward contracts and Intermediation Facility Derivatives are determined using independent price publications, third-party pricing services, market exchanges and investment dealer quotes; and
- fair values of the Redemption Options are determined using a valuation model based on inputs from observable market data including independent price publications, third-party pricing services and market exchanges.

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

### Fair value measurement hierarchy and impact on the consolidated balance sheets and statements of income

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

| | Fair value as at December 31, 2018 | | | |
|---|---|---|---|---|
| ($ millions) | **Quoted prices in active market (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| Risk management derivatives | | | | |
| Sol Transaction Hedge | – | 26 | – | 26 |
| Commodities swaps, forwards and futures contracts | – | 2 | – | 2 |
| Other derivatives | | | | |
| Emission credits and allowances | – | 12 | – | 12 |
| Risk management and other derivatives - assets | – | 40 | – | 40 |
| Risk management derivatives | | | | |
| Commodities swaps, forwards and futures contracts | – | (2) | – | (2) |
| US dollar forward contracts | – | (2) | – | (2) |
| Other derivatives | | | | |
| Emission credits and allowances | – | (3) | – | (3) |
| Risk management and other derivatives - liabilities | – | (7) | – | (7) |
| Other derivatives included in other long-term assets | | | | |
| Redemption Options | – | 8 | – | 8 |
| Other derivatives included in prepaid expenses and other | | | | |
| Intermediation Facility Derivatives | – | 7 | – | 7 |

The following table presents the impact of the financial assets and liabilities measured at fair value on the consolidated statements of income:

| ($ millions) | Three months ended December 31, 2018 | 2017 | Year ended December 31, 2018 | 2017 |
|---|---|---|---|---|
| (Loss) gain on risk management and other derivatives - realized[1] | **(13)** | 4 | **(20)** | 1 |
| Gain (loss) on risk management and other derivatives - unrealized[1] | **24** | (6) | **3** | 2 |
| Gain (loss) on risk management and other derivatives | **11** | (2) | **(17)** | 3 |
| Change in fair value of Redemption Options[2] | **(21)** | (10) | **(24)** | 9 |
| Gain (loss) on Intermediation Facility Derivatives - realized[3] | **49** | (17) | **20** | (17) |
| Gain (loss) on Intermediation Facility Derivatives - unrealized[3] | **13** | (9) | **15** | (9) |
| Impact on consolidated statements of income | **52** | (38) | **(6)** | (14) |

[1] Gains and losses on risk management and other derivatives are primarily driven by commodities swaps, forward contracts and changes in relative strength of the Canadian to US dollar on swap contracts.
[2] Recognized in finance costs. See above for description of the Redemption Options.
[3] Recognized in cost of purchases. See Section 8 for a description of the Intermediation Facility.

### Credit risk
Parkland is exposed to credit risk from operating activities and certain financing activities. Parkland's exposure to concentrations of significant credit risk to any individual customer is limited. Credit risk is minimized by Parkland's broad and geographically diverse customer base. In the Retail segment, credit risk is managed through a daily settlement process. Retail generally operates at a negative working capital carry. Parkland also manages its exposure to credit risk through a variety of means, including, but not limited to: (i) rigorous credit granting procedures, including review of each new customer's credit history before extending credit and imposing short payment terms or security interests where applicable; (ii) ongoing customer credit evaluations, including review of customer financial conditions and credit performance; (iii) ongoing close monitoring of outstanding amounts; and (iv) use of standby and commercial letters of credit for certain customers, where applicable. Parkland's allowances for receivables are maintained at levels considered adequate to provide for future credit losses.

Counterparties for all risk management and other derivatives transacted by Parkland are major financial institutions or counterparties with investment grade credit ratings.

### Foreign currency risk
Parkland is exposed to foreign currency risk due to fluctuations in the US dollar to Canadian dollar ("USD/CAD") exchange rate relating to Parkland's operating activities, such as purchasing and selling certain products and services in US dollars, and Parkland's net investments in US subsidiaries. Parkland may mitigate foreign currency risk through a variety of means, including entering into US dollar forward contracts or foreign currency options, as appropriate. For the year ended December 31, 2018, a $0.10 change in the US dollar to Canadian dollar exchange rate on financial instruments denominated in US dollars, with all other variables held constant, would have caused a $51 million decrease in net earnings (2017 - $24 million decrease) and $40 million increase in other comprehensive income (2017 - nil). The increased sensitivity is primarily due to the issuance of the 6.00% US Senior Notes and entering into the Sol Transaction Hedge.

### Interest rate risk
Interest rate risk arises from the impact of fluctuating interest rates on net earnings, cash flows and valuations. Parkland is exposed to market risk from changes in the Canadian and US prime interest rates, bankers' acceptance rate and LIBOR rate, which can impact its borrowing costs. Parkland monitors and analyzes the interest rate risk on a regular basis and mitigates interest rate risk by considering refinancing, credit line renewals, hedging options and issuing long-term debt at a fixed rate, as appropriate. As at December 31, 2018, a 100 basis point change in these interest rates, with all other variables held constant, would have caused an increase or decrease to net earnings of approximately $1 million (2017 - $9 million). The decreased sensitivity is due to lower variable rate borrowings compared to the same period in 2017.

### Liquidity risk

Liquidity risk is the risk that Parkland will not be able to meet its financial obligations as they become due. Parkland's process for managing liquidity risk includes ensuring, to the extent possible, that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities, undrawn credit facilities and access to various credit products at competitive rates.

Parkland is committed to retaining positive credit ratings to support access to capital markets. In October 2018, Standard & Poor's upgraded the ratings of Parkland from BB- to BB. Parkland currently has the following credit ratings:

| | Standard & Poor's | Dominion Bond Rating Service | Moody's |
|---|---|---|---|
| Corporate | **BB** | **BB** | Not rated |
| 5.50% Senior Notes, due 2021 | **BB** | **BB** | Not rated |
| 6.00% Senior Notes, due 2022 | **BB** | **BB** | Not rated |
| 5.75% Senior Notes, due 2024 | **BB** | **BB** | Not rated |
| 5.625% Senior Notes, due 2025 | **BB** | **BB** | Not rated |
| 6.00% US Senior Notes, due 2026 | **BB** | **BB** | **B1** |
| 6.50% Senior Notes, due 2027 | **BB** | **BB** | Not rated |

Refer to Sections 7 and 8 of this MD&A for further discussion on Parkland's liquidity and capital resources.

### Commodity price risk

Commodity price risk is the risk that Parkland is exposed to unfavourable commodity price movements that will result in a financial loss, including movements in crude oil, heavy oil, LPGs and refined products. Parkland enters into derivative instruments including the Intermediation Facility Derivatives and commodities swaps, forwards and futures contracts to mitigate commodity price risk volatility as part of its risk management strategy. These financial instruments are subject to financial controls, risk management and monitoring procedures.

Risk management derivatives and Intermediation Facility Derivatives are recorded at fair value and are sensitive to commodity price movements. As at December 31, 2018, a 5% change in commodity prices, including crude oil, heavy oil, LPGs and refined products, with all other variables held constant, would change net earnings by approximately $10 million (2017 - $12 million) due to the change in fair values of risk management derivatives and Intermediation Facility Derivatives, driven primarily by the impact of open contracts.

### Other risks

A detailed discussion of additional risk factors relating to Parkland and its business is presented in the Annual Information Form available on SEDAR at www.sedar.com.

# 10. OUTLOOK

## Grow organically

Parkland will continue to build and expand its convenience store offering, which will provide a strong platform for Parkland Retail growth across Canada. This includes continued implementation of our newly refreshed On the Run / Marché Express store designs and expansion of our 59th Street Food Co. private label brand offerings. Parkland will also continue to implement its new loyalty program, Journie Rewards. The new loyalty program is designed to retain existing customers, attract new customers, and build recurring fuel and merchandise sales with its innovative and fresh approach. Parkland Commercial will continue to optimize its operations and execute strategic initiatives as it enters the traditionally busy winter season. Among other initiatives, Commercial will continue to be run locally through ROCs to enable organic growth within their regions, leveraging substantial existing capacity within current hubs, bulk storage terminals, and warehouses. Furthermore, Parkland intends to leverage the Pipeline Commercial brand to build a North American cardlock network and continue to invest in the propane business. Overall, Parkland will continue to maintain ongoing focus on retaining existing customers and winning new customers across all segments.

## Strong supply advantage

As part of our strategy to enhance our supply advantage, Parkland will focus on the safe and reliable operation of the Burnaby Refinery and improve supply costs across North America. We will also continue to work to be the partner of choice for all refiners and suppliers. Parkland intends to broaden its import and export capability as well as expand distribution and supply points. Parkland will also implement its supply advantage strategy at Sol to realize growth synergies.

## Acquire prudently and integrate

In 2019, Parkland will remain focused on realizing synergy opportunities from the Sol Transaction, which includes implementing supply optimization strategies and making operational improvements. Moreover, Parkland continues to integrate earlier acquisitions such as the Ultramar Acquisition and Chevron Acquisition, and drive synergies to create shareholder value, including the following activities:

- Parkland is currently in the process of converting the ERP system used in the Supply segment of the Chevron Acquisition to Parkland's ERP system and is progressing towards Phase II of the Chevron TSA in the first half of 2019.
- Parkland completed initiatives that are expected to result in Annual Synergies[1] on the Acquisitions of approximately $100 million per year. Parkland expects that Annual Synergies on the Acquisitions will reach approximately $180 million per year[1] by the end of 2020.
- Parkland is in the process of converting the ERP systems used by the various recently acquired Parkland USA entities to one common platform.

Furthermore, in line with our disciplined strategy of acquiring prudently, Parkland will continue to review its acquisition pipeline for potential targets and initiate acquisitions as strategic opportunities arise. Parkland sees significant expansion opportunities in the United States in regions where Parkland can establish a supply advantage.

With the Sol Transaction close on January 8, 2019, Parkland will review its reportable segment structure for the first quarter of 2019.

## Enable our teams to succeed

At the core of our strategic imperatives are our people. We welcome the newest members of our high-performing team from Sol to Parkland. For the remainder of 2019, we will continue to focus on building One Parkland Team under the Parkland BOLD leadership model by leveraging and integrating our team members across the organization and building on our KPI-driven culture. We will enable our teams to succeed by recruiting high-calibre team members, fostering engagement, building an industry-leading people culture, driving efficient process, and investing in technology. At Parkland, our employees are our most important resource and by investing in our people and building One Parkland Team, we are directly contributing to the success of our organization and driving shareholder value.

## 2019 Guidance Range

Parkland is pleased to announce our 2019 Adjusted EBITDA guidance at approximately $960 million with an anticipated variance of up to 5% (the "2019 Guidance Range"). The 2019 Guidance Range includes the 75% of Sol's Adjusted EBITDA which is attributable to Parkland and excludes the impact of adopting IFRS 16. Parkland is in the process of assessing the impact of adopting IFRS 16, which will be completed and disclosed in the March 31, 2019 interim condensed consolidated financial statements and MD&A.

The 2019 Guidance Range includes growth scenarios that build off the 2018 Adjusted EBITDA of $887 million and the assumption that the performance of the businesses purchased through the Acquisitions and Sol Transaction, general market conditions, including, but not limited to, fuel margins and weather, will remain substantially consistent in 2019. Additionally, the low end of our 2019 Guidance Range accounts for potential adverse market conditions across our areas of operation as well as lower refining crack spreads, while the high end of our 2019 Guidance Range accounts for contributions from synergies relating to prior acquisitions (including the Sol Transaction), higher refining crack spreads and Parkland achieving greater than its previously disclosed average annual organic growth goal of 3-5%. The 2019 Guidance Range is based on certain assumptions, including, but not limited to, estimates of future performance of the Sol Transaction, with such estimates being based on prior performance.

[1] "Annual Synergies" is a forecasted annualized run-rate measure and is considered to be forward-looking information. See Sections 13 and 14 of this MD&A.

Other than as disclosed above, the factors and assumptions that contribute to Parkland's assessment of the 2019 Guidance Range are consistent with existing Parkland disclosure and such guidance range is subject to risks and uncertainties inherent in Parkland's business. Readers are directed to Section 9 of this MD&A and Parkland's Annual Information Form for a description of such factors, assumptions, risks and uncertainties. Refer to Parkland's press release issued on February 28, 2019 on SEDAR at www.sedar.com for more information.

# 11. OTHER

## Controls environment

### Internal controls over financial reporting

Based on the evaluation of the design of Parkland's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument ("NI") 52-109, the Chief Executive Officer and Chief Financial Officer have concluded that Parkland's DC&P and ICFR were designed effectively as at December 31, 2018. In making its assessment, management used the Internal Control — Integrated Framework (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of ICFR. These controls are designed to provide reasonable assurance regarding the reliability of Parkland's financial reporting and compliance with IFRS.

In accordance with the provisions of NI 52-109, Parkland has limited the scope of its design of DC&P and ICFR to exclude controls, policies and procedures of businesses acquired not more than 365 days before December 31, 2018, as Parkland closed the Rhinehart Acquisition on August 27, 2018 and acquired individually immaterial businesses in the second, third and fourth quarters of 2018. This scope limitation is primarily due to the time required for Parkland's management to assess DC&P and ICFR in a manner consistent with Parkland's other operations.

The following tables summarize the financial information related to these acquisitions under the NI 52-109 scope limitation:

| ($ millions) | **As at December 31, 2018** |
|---|---|
| Current assets | **64** |
| Non-current assets | **210** |
| Current liabilities | **31** |
| Non-current liabilities | **9** |

| | **Year ended December 31, 2018** |
|---|---|
| Sales and operating revenue | **183** |
| Net earnings | **2** |

### Changes in internal controls over financial reporting

Other than as described above, there were no changes in Parkland's ICFR during the year ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, Parkland's ICFR. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems that are determined to be effective can provide only reasonable, but not absolute assurance, that financial information is accurate and complete. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Off-balance sheet arrangements

In the normal course of business, Parkland is obligated to make future payments, including contractual obligations and guarantees. Parkland believes all relationships or arrangements with entities that are likely to have a material effect on its liquidity or the availability of capital resources have been consolidated into the financial statements. Parkland has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business.

### Guarantees

As at December 31, 2018, Parkland provided $866 million (December 31, 2017 – $730 million) of unsecured guarantees to counterparties of commodities swaps used in purchase and supply agreements of crude oil, fuel and other petroleum products.

### Letters of credit and surety bonds

Parkland provides guarantees in the form of letters of credit and surety bonds in the ordinary course of business. As at December 31, 2018, these guarantees amount to $233 million (December 31, 2017 – $175 million) and are not recognized in the Annual Consolidated Financial Statements. Maturity dates of these guarantees vary and are up to and including January 20, 2020.

## Shares outstanding

As at February 28, 2019, Parkland had approximately 146 million common shares, 3 million share options and 1 million restricted share units outstanding. The share options consist of approximately 2 million share options that are currently exercisable into common shares.

## 12. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Parkland's significant accounting policies and significant accounting estimates, assumptions and judgments are contained in the Annual Consolidated Financial Statements. Refer to Notes 2 and 3 of the Annual Consolidated Financial Statements for a summary of significant accounting policies or references to notes where such policies are contained.

### Significant accounting estimates, assumptions and judgments

The preparation of Parkland's consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of revenue, expenses, assets, liabilities, accompanying disclosures and the disclosure of contingent liabilities. These estimates and judgments are subject to change based on experience and new information. The following provides a summary of Parkland's most critical accounting estimates in determining the value of items recognized in the Annual Consolidated Financial Statements and most critical judgments in applying accounting policies. Refer to Note 3 of the Annual Consolidated Financial Statements for detailed discussion of these items.

**Asset retirement obligations**

Asset retirement obligations represent the present value estimates of Parkland's cost to remediate sites. Parkland applies judgment in assessing the existence, extent and expected method of remediation and decommissioning required at the end of each reporting period. Parkland also uses judgment to determine whether the nature of the activities performed relate to decommissioning and remediation activities or normal operating activities. In addition, the provisions are based on estimated costs, which consider the anticipated method and extent of remediation, technological advances, possible future uses of the site, as well as regulatory, environmental and safety considerations. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technologies, operating experience, prices and closure plans. The estimated timing of future decommissioning and remediation may change due to factors such as closure plans and regulatory considerations. Changes to estimates relating to future expected costs, discount rates and timing may have a material impact on the amounts presented.

**Contingencies and legal matters**

Contingencies are subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. Assessments of contingencies and legal matters involve a significant amount of judgment, including assessing whether a present obligation exists, assessing factors that may mitigate or reduce the obligation, and determining a reliable estimate of the cash outflow required to settle the obligation. Parkland is required to both determine whether a loss is probable and whether the loss can be reasonably estimated. The uncertainty with regards to the time and amount at which a contingency may be settled may have a material impact on the consolidated financial statements in future periods to the extent that the amount provided for differs from the actual outcome.

**Business combinations**

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

**Asset impairment**

Asset impairment tests require the allocation of assets to cash-generating units ("CGUs") or group of CGUs ("CGU group"), which requires significant judgment and interpretation with respect to the integration between assets, existence of active markets, similar exposure to market risks, shared resources and assets, and the way management monitors operations.

Asset impairment tests require determination of whether there is an indication that an asset may be impaired. Such assessment is performed at the end of each reporting period and requires the application of judgment, historical experience, and use of external and internal sources of information.

Asset impairment tests may also require the estimation of the recoverable amount of the non-financial asset or the CGU group, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions conducted at arm's length for similar assets, valuation appraisals, or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from Parkland's budget for the first year and Parkland's forecast for the next four years and do not include restructuring activities that Parkland is not yet committed to, or significant future investments that will enhance the performance of the asset or CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as expected future cash flows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill, property, plant and equipment and intangible assets recognized by Parkland.

**Depreciation and amortization**

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

**Fair value of financial instruments**

The fair value of financial instruments is determined wherever possible based on observable market data. If not available, Parkland uses third-party models, independent price publications, market exchanges, investment dealer quotes and valuation methodologies that utilize observable data that includes forward commodity prices, foreign exchange and interest rates to estimate the fair value of financial instruments, including derivatives. Actual values may significantly differ from these estimates.

**Functional currency**

The designation of the functional currency of Parkland and each of its subsidiaries is a management judgment based on the composition of revenue and costs in the locations it operates.

**Income taxes**

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

## Changes in accounting policies and disclosures

**IFRS 9 – Financial Instruments**

On January 1, 2018, Parkland adopted IFRS 9 - Financial Instruments ("IFRS 9") using the modified retrospective approach. The cumulative effect of initially adopting IFRS 9 did not result in a material impact on prior period financial information. Comparative information is not restated and continues to be reported under the previous financial instrument standards in effect during those periods. See Note 2 of the Annual Consolidated Financial Statements for further information.

**IFRS 15 – Revenue from Contracts with Customers**

On January 1, 2018, Parkland adopted IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") using the modified retrospective method on contracts that were not completed as of January 1, 2017. The cumulative effect of initially adopting IFRS 15 did not result in a material impact on prior period financial information. Comparative information is not restated and continues to be reported under the previous revenue standards in effect during those periods. See Note 2 of the Annual Consolidated Financial Statements for further information.

## Standard issued but not yet effective

**IFRS 16 – Leases**

In January 2016, the International Accounting Standards Board issued IFRS 16, which replaces IAS 17 - Leases ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less, or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

Parkland will apply IFRS 16 beginning January 1, 2019 and has selected the modified retrospective transition approach, which does not require restatement of prior period financial statements.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer (right-of-use asset). Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

On initial adoption of IFRS 16, Parkland will recognize lease liabilities in relation to leases under the principles of the new standard. These liabilities will be measured at the present value of the remaining lease payments, discounted using Parkland's incremental borrowing rate as at January 1, 2019. The right-of-use asset recorded will initially be measured at an amount equal to the lease liability on January 1, 2019 with no impact on deficit. Parkland will elect to use the following practical expedients permitted by the standard:

- use a single discount rate to a portfolio of leases with reasonably similar characteristics;
- account for operating leases with a remaining lease term of less than twelve months on January 1, 2019 as short-term leases;
- exclude initial direct costs from the measurement of right-of-use assets;
- by class of underlying assets, elect to combine lease and non-lease components as a single lease component; and
- treat leases with an underlying asset of low dollar value as operating leases.

The adoption of IFRS 16 is expected to increase Parkland's assets and liabilities, depreciation and amortization, and finance costs, while reducing operating costs. Cash payments associated with operating leases are currently presented under operating activities. On adoption of IFRS 16, the cash flows associated with lease payments will be allocated between financing activities for the repayment of the principal liability, and operating activities for the interest component. The overall impact to cash flow for Parkland will remain unchanged.

Parkland is in the final stages of establishing the amounts of the right-of-use asset and lease liability and overall financial statement impact of adopting IFRS 16, which will be completed and disclosed in the March 31, 2019 interim condensed consolidated financial statements and MD&A.

# 13. FINANCIAL MEASURES AND KEY PERFORMANCE INDICATORS

## Measures of segment profit – GAAP financial measures

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") and adjusted gross profit, including fuel and petroleum product adjusted gross profit and non-fuel adjusted gross profit, are considered IFRS measures as they are determined and presented within Note 24 – Segment Information of the Annual Consolidated Financial Statements as Parkland's segment profit. These measures are used by the chief operating decision maker to make decisions about resource allocation to the segment and to assess its performance. In accordance with IFRS, adjustments and eliminations made in preparing an entity's financial statements and allocations of revenue, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. As such, these measures are unlikely to be comparable to measures of segment profit and loss presented by other issuers, who may calculate these measures differently. Refer to Note 24 of the Annual Consolidated Financial Statements for a full reconciliation of Adjusted EBITDA and adjusted gross profit for each of Parkland's operating segments.

### Adjusted EBITDA

Parkland views Adjusted EBITDA as the key measure for the underlying core operating performance of business segment activities at an operational level. Adjusted EBITDA is used by management to set targets for Parkland (including annual guidance and variable compensation targets) and is used to determine Parkland's ability to service debt, finance capital expenditures and provide for dividend payments to shareholders. Adjusted EBITDA excludes costs that are not considered representative of Parkland's underlying core operating performance, including, among other items: (i) costs related to potential and completed acquisitions, (ii) non-core acquisition and integration employee costs, (iii) business integration and restructuring costs, (iv) changes in the fair value of share-based compensation liabilities, and (v) realized foreign exchange gains and losses as a result of refinancing activities.

Adjusted EBITDA is calculated and reconciled from net earnings as follows:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| ($ millions) | **2018** | 2017 | **2018** | 2017 |
| Net earnings | **77** | 49 | **206** | 82 |
| Add: | | | | |
| Depreciation and amortization | **79** | 69 | **301** | 166 |
| Finance costs | **62** | 48 | **171** | 90 |
| Loss on asset disposals | **—** | 3 | **23** | 2 |
| Acquisition, integration and other costs | **24** | 41 | **77** | 84 |
| (Gain) loss on risk management and other derivatives – unrealized | **(24)** | 6 | **(3)** | (2) |
| Loss (gain) on foreign exchange – unrealized | **47** | (1) | **53** | 1 |
| Other adjusting items[1] | **(16)** | 9 | **(12)** | 9 |
| Income tax expense (recovery) | **36** | (26) | **71** | (14) |
| Adjusted EBITDA | **285** | 198 | **887** | 418 |

[1] Other adjusting items include unrealized (gain) loss on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and realized (gain) loss on foreign exchange relating to debt refinancing activities.

### Adjusted gross profit

Parkland uses adjusted gross profit as a measure of segment profit and loss to analyze the performance of sale and purchase transactions and performance on margin. Adjusted gross profit is calculated and reconciled as follows:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| ($ millions) | **2018** | 2017 | **2018** | 2017 |
| Sales and operating revenue[2] | **3,526** | 3,429 | **14,442** | 9,560 |
| Cost of purchases[2] | **(2,919)** | (2,975) | **(12,425)** | (8,480) |
| (Loss) gain on risk management and other derivatives – realized | **(13)** | 4 | **(20)** | 1 |
| Gain on foreign exchange – realized | **9** | 2 | **10** | 4 |
| Other adjusting items[3] | **(16)** | 9 | **(12)** | 9 |
| Adjusted gross profit | **587** | 469 | **1,995** | 1,094 |
| | | | | |
| Fuel and petroleum product adjusted gross profit | **508** | 400 | **1,714** | 888 |
| Non-fuel adjusted gross profit | **79** | 69 | **281** | 206 |
| Adjusted gross profit | **587** | 469 | **1,995** | 1,094 |

[2] For comparative purposes, sales and operating revenue and cost of purchases for the three months and year ended December 31, 2017 were restated for a reclassification from Commercial to Supply, reflecting a change in customer service delivery structure in 2018.

[3] Other adjusting items include unrealized (gain) loss on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and realized (gain) loss on foreign exchange relating to debt refinancing activities.

## Non-GAAP financial measures

Certain financial measures in this MD&A are not prescribed by GAAP. These non-GAAP financial measures are included because management uses the information to analyze operating performance, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. Except as otherwise indicated, these non-GAAP measures are calculated and disclosed on a consistent basis from period to period.

| Non-GAAP financial measure | Description | Formula | Why we use the measure and why it is useful |
|---|---|---|---|
| **Credit Facility earnings before interest, taxes, depreciation and amortization ("Credit Facility EBITDA")[1]** | Debt covenant earnings metric defined in Parkland's Credit Facility | Credit Facility EBITDA[1] =<br>Adjusted EBITDA<br>+ share incentive compensation<br>+ acquisition pro-forma EBITDA adjustment[2]<br>+ acquisition, integration and other costs adjustment[2] | We use this metric to monitor Parkland's ability to service debt and meet current and future commitments. |
| **Senior Funded Debt to Credit Facility EBITDA ratio[1]** | Debt covenant ratio metric defined in Parkland's Credit Facility, where Credit Facility EBITDA is compared to Senior Funded Debt as a ratio | Senior Funded Debt to Credit Facility EBITDA[1] =<br>Senior Funded Debt ÷ Credit Facility EBITDA<br><br>Senior Funded Debt =<br>[current portion of long-term debt<br>+ bank indebtedness<br>+ non-current portion of long-term debt (excluding Senior Notes)<br>+ letters of credit and surety bonds]<br>- cash and cash equivalents and restricted cash | We use these ratios to demonstrate compliance with debt covenants and provide users with an indication of Parkland's ability to repay debt. To manage Parkland's financing requirements, we may adjust capital spending or dividends paid to shareholders, or issue new shares or new debt. These metrics are also used to monitor and guide Parkland's overall financial strength and capital structure flexibility. |
| **Total Funded Debt to Credit Facility EBITDA ratio[1]** | Debt covenant metric defined in Parkland's Credit Facility, where Credit Facility EBITDA is compared to Total Funded Debt as a ratio | Total Funded Debt to Credit Facility EBITDA[1] =<br>Total Funded Debt ÷ Credit Facility EBITDA<br><br>Total Funded Debt =<br>Senior Funded Debt + Senior Notes | |
| **Interest coverage ratio[1]** | Debt covenant metric defined in Parkland's Credit Facility, where Credit Facility EBITDA is compared to interest[2] as a ratio | Interest coverage ratio[1] =<br>Credit Facility EBITDA ÷ interest[2] | We use this ratio to provide us with an indication of Parkland's ability to pay interest on its outstanding debt, in addition to demonstrating compliance with debt covenants. |
| **Net unit operating cost ("NUOC")[1]** | Retail industry metric that represents adjusted fuel gross profit required per litre for the segment to break even on operating costs and management, general and administrative ("MG&A") expenses | NUOC[1] =<br>[operating costs + MG&A expenses<br>– non-fuel adjusted gross profit]<br>÷ fuel and petroleum product volume | We use this metric to measure performance of the Retail segment. We believe it provides transparency and predictive value for operating costs and MG&A expenses in relation to fuel sales within the segment. |
| **TTM operating ratio[1]** | Operating metric that represents operating costs and MG&A expenses as a percentage of gross profit | TTM operating ratio[1] =<br>[operating costs + MG&A expenses]<br>÷ adjusted gross profit | We use this ratio to measure performance of the Commercial and Parkland USA segments as we believe it provides transparency and predictive value on operating costs and MG&A expenses. |
| **Corporate marketing, general and administrative expenses as a % of adjusted gross profit** | Ratio that measures percentage of corporate expenses in relation to Parkland's adjusted gross profit | Corporate MG&A as a % of adjusted gross profit =<br>corporate MG&A expenses<br>÷ consolidated adjusted gross profit | We use this metric to measure the effectiveness of Parkland's corporate operations in relation to Parkland's overall business. We believe this metric provides transparency and predictive value for corporate MG&A in relation to Parkland's entire adjusted gross profit. |
| **Distributable cash flow** | Cash flow metric that adjusts for the impact of seasonality in Parkland's business by removing non-cash working capital items | Distributable cash flow =<br>cash flow from operating activities<br>– change in other liabilities<br>– net change in non-cash working capital<br>+ maintenance capital expenditures<br>+ proceeds on asset disposals | We use this metric to monitor normalized cash flows of the business by eliminating the impact of Parkland's working capital fluctuations, which can vary significantly from quarter to quarter. |
| **Adjusted distributable cash flow** | Distributable cash flow metric that excludes acquisition, integration and other costs | Adjusted distributable cash flow =<br>distributable cash flow<br>– acquisition, integration and other costs<br>– Turnaround maintenance capital expenditures | We use this metric to monitor core distributable cash flows of the business without the impact of expenditures used in acquisitions, integration and other activities, which fluctuate significantly. |

[1] Calculated on a trailing-twelve-month basis.
[2] Determined pursuant to the terms of the Credit Facility.

| Non-GAAP financial measure | Description | Formula | Why we use the measure and why it is useful |
|---|---|---|---|
| **Distributable cash flow per share** | Distributable cash flow presented on a per share basis | Distributable cash flow per share = distributable cash flow ÷ weighted average number of common shares | We measure this metric on a per share basis, as we believe this provides useful information to individual shareholders. |
| **Adjusted distributable cash flow per share** | Adjusted distributable cash flow presented on a per share basis | Adjusted distributable cash flow per share = adjusted distributable cash flow ÷ weighted average number of common shares | |
| **Dividend payout ratio** | Ratio of dividends distributed to distributable cash flow | Dividend payout ratio = dividends ÷ distributable cash flow | We use these ratios as indicators of Parkland's ability to generate cash flows to sustain monthly dividends, including those issued under the dividend reinvestment plan. |
| **Adjusted dividend payout ratio** | Ratio of dividends distributed to adjusted distributable cash flow | Adjusted dividend payout ratio = dividends ÷ adjusted distributable cash flow | |
| **Maintenance capital expenditures** | Capital expenditure metric for activities that are maintenance in nature. | Additions to property, plant and equipment and intangible assets that are considered to be maintenance in nature, including but not limited to:<br>- Turnaround and other maintenance projects at the Burnaby Refinery;<br>- upgrades of service stations, including primarily aesthetic major renovations (also known as "refreshes") of retail service stations;<br>- rebrand or refresh of service stations, including securing a supply agreement with a new independent retailer;<br>- replacement of existing concrete structures, paving, roofing, furniture and equipment;<br>- upgrade or replacement of trucking fleets; and<br>- upgrade of software systems or point-of-sale systems. | Parkland uses maintenance capital expenditures as a financial measure to monitor expenditures on property, plant and equipment and intangible assets to sustain the current level of economic activity and maintain cash flows from operating activities at a constant level of productive capacity. Parkland considers the volume of fuel and propane sales, volume of convenience store sales, volume of lubricant sales, agricultural inputs, and delivery to be productive capacity. The classification of capital as growth or maintenance is subject to judgment, as many of Parkland's capital projects have components of both. A reconciliation of this measure is presented in Section 8 of this MD&A. |
| **Growth capital expenditures** | Capital expenditure metric for activities that are growth in nature. | Additions to property, plant and equipment and intangible assets that are considered to be growth in nature, including but not limited to:<br>- new site builds within the Retail segment under the "new-to-industry" program;<br>- construction of a new building on an existing site;<br>- IT capital expenditures related to integration of acquired businesses;<br>- acquisition of new real estate;<br>- addition of new trucks and trailers to increase the size of the fleet;<br>- addition of new equipment to increase the size and capacity of a retail fuel service station; and<br>- addition of new infrastructure and tanks to support large new customer contracts. | Parkland uses growth capital expenditures as a measure to monitor expenditures on property, plant and equipment and intangible assets that increase the current level of economic activity. The classification of capital as growth or maintenance is subject to judgment, as many of Parkland's capital projects have components of both. A reconciliation of this measure is presented in Section 8 of this MD&A. |

# Non-GAAP financial measure reconciliations

## Credit Facility EBITDA

| | Three months ended | | | | Trailing twelve months ended |
|---|---|---|---|---|---|
| ($ millions) | March 31, 2018 | June 30, 2018 | September 30, 2018 | December 31, 2018 | December 31, 2018 |
| Adjusted EBITDA | 153 | 249 | 200 | 285 | 887 |
| Share incentive compensation | – | 4 | 5 | 4 | 13 |
| | 153 | 253 | 205 | 289 | 900 |
| Acquisition pro-forma adjustment[1] | | | | | 14 |
| Acquisition, integration and other costs adjustment[2] | | | | | (1) |
| Credit Facility EBITDA | | | | | 913 |

[1] Amounts for the trailing twelve months ended December 31, 2018 include pro-forma pre-acquisition EBITDA estimates as if the acquisitions during the year occurred on January 1, 2018 pursuant to the terms of the Credit Facility. This amount is used for debt covenant calculation purposes only.

[2] The adjustment for acquisition, integration and other costs was calculated to be $1 million pursuant to the terms of the Credit Facility dated March 29, 2018. This amount is used for debt covenant calculation purposes only.

| ($ millions) | March 31, 2017 | June 30, 2017 | Three months ended September 30, 2017 | December 31, 2017 | Trailing twelve months ended December 31, 2017 |
|---|---|---|---|---|---|
| Adjusted EBITDA | 70 | 54 | 96 | 198 | 418 |
| Share incentive compensation | 2 | 1 | 1 | 6 | 10 |
| | 72 | 55 | 97 | 204 | 428 |
| Acquisition pro-forma adjustment[1] | | | | | 350 |
| Acquisition, integration and other costs adjustment[2] | | | | | (5) |
| Credit Facility EBITDA | | | | | 773 |

[1] Amounts for the trailing twelve months ended December 31, 2017 include pro-forma pre-acquisition EBITDA estimates as if the acquisitions during the year occurred on January 1, 2017 pursuant to the terms of the Credit Facility. This amount is used for debt covenant calculation purposes only.

[2] The adjustment for acquisition, integration and other costs was calculated to be $5 million pursuant to the terms of the Credit Facility dated September 28, 2017. This amount is used for debt covenant calculation purposes only.

## Senior Funded Debt and Total Funded Debt to Credit Facility EBITDA ratios

| ($ millions) | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Senior Funded Debt: | | |
| Long-term debt – current portion | **4** | 4 |
| Long-term debt – non-current portion (excluding Senior Notes) | **89** | 810 |
| Letters of credit and surety bonds[3] | **29** | 37 |
| Less: Cash and cash equivalents | **(40)** | (23) |
| Senior Funded Debt | **82** | 828 |
| Senior Notes | **2,170** | 1,200 |
| Total Funded Debt | **2,252** | 2,028 |
| | | |
| Credit Facility EBITDA | **913** | 773 |
| Senior Funded Debt to Credit Facility EBITDA ratio | **0.09** | 1.07 |
| Total Funded Debt to Credit Facility EBITDA ratio | **2.47** | 2.62 |

[3] Calculated pursuant to the terms of the Credit Facility.

## Interest coverage ratio

| For the trailing twelve months ended ($ millions) | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Credit Facility EBITDA | **913** | 773 |
| Interest[4] | **140** | 102 |
| Interest coverage ratio | **6.52** | 7.65 |

[4] Calculated pursuant to the terms of the Credit Facility.

## NUOC

### Retail

| ($ millions) | **March 31, 2018** | **June 30, 2018** | **Three months ended September 30, 2018** | **December 31, 2018** | **Trailing twelve months ended December 31, 2018** |
|---|---|---|---|---|---|
| Operating costs | **76** | **82** | **80** | **76** | **314** |
| Marketing, general and administrative | **15** | **14** | **15** | **15** | **59** |
| Less: Non-fuel adjusted gross profit | **(35)** | **(40)** | **(38)** | **(35)** | **(148)** |
| | **56** | **56** | **57** | **56** | **225** |
| Fuel and petroleum product volume[5] (million litres) | **1,586** | **1,725** | **1,852** | **1,742** | **6,905** |
| NUOC | **3.53** | **3.25** | **3.08** | **3.21** | **3.26** |

[5] Includes gasoline, diesel and propane volumes.

| ($ millions) | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Trailing twelve months ended December 31, 2017 |
|---|---|---|---|---|---|
| | Three months ended | | | | |
| Operating costs | 25 | 25 | 66 | 81 | 197 |
| Marketing, general and administrative | 7 | 7 | 12 | 15 | 41 |
| Less: Non-fuel adjusted gross profit | (13) | (14) | (33) | (36) | (96) |
| | 19 | 18 | 45 | 60 | 142 |
| Fuel and petroleum product volume[1] (million litres) | 844 | 967 | 1,667 | 1,731 | 5,209 |
| NUOC | 2.24 | 1.91 | 2.68 | 3.49 | 2.74 |

[1] Includes gasoline, diesel and propane volumes.

## TTM operating ratio

### Commercial

| ($ millions) | **March 31, 2018** | **June 30, 2018** | **September 30, 2018** | **December 31, 2018** | **Trailing twelve months ended December 31, 2018** |
|---|---|---|---|---|---|
| | **Three months ended** | | | | |
| Operating costs | **57** | **45** | **41** | **48** | **191** |
| Marketing, general and administrative | **9** | **11** | **11** | **12** | **43** |
| | **66** | **56** | **52** | **60** | **234** |
| Adjusted gross profit | **104** | **74** | **62** | **87** | **327** |
| TTM operating ratio | | | | | **71.6%** |

| ($ millions) | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Trailing twelve months ended December 31, 2017 |
|---|---|---|---|---|---|
| | Three months ended | | | | |
| Operating costs | 38 | 33 | 37 | 50 | 158 |
| Marketing, general and administrative | 6 | 6 | 11 | 12 | 35 |
| | 44 | 39 | 48 | 62 | 193 |
| Adjusted gross profit | 73 | 44 | 56 | 90 | 263 |
| TTM operating ratio | | | | | 73.2% |

### Parkland USA

| ($ millions) | **March 31, 2018** | **June 30, 2018** | **September 30, 2018** | **December 31, 2018** | **Trailing twelve months ended December 31, 2018** |
|---|---|---|---|---|---|
| | **Three months ended** | | | | |
| Operating costs | **10** | **11** | **13** | **21** | **55** |
| Marketing, general and administrative | **2** | **2** | **3** | **6** | **13** |
| | **12** | **13** | **16** | **27** | **68** |
| Adjusted gross profit | **16** | **18** | **24** | **38** | **96** |
| TTM operating ratio | | | | | **70.8%** |

| ($ millions) | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 | Trailing twelve months ended December 31, 2017 |
|---|---|---|---|---|---|
| | Three months ended | | | | |
| Operating costs | 10 | 11 | 10 | 10 | 41 |
| Marketing, general and administrative | 2 | 2 | 1 | 3 | 8 |
| | 12 | 13 | 11 | 13 | 49 |
| Adjusted gross profit | 15 | 18 | 15 | 17 | 65 |
| TTM operating ratio | | | | | 74.8% |

## Corporate marketing, general and administrative expenses as a % of adjusted gross profit

| | **Three months ended December 31,** | | **Year ended December 31,** | |
|---|---|---|---|---|
| ($ millions) | **2018** | 2017 | **2018** | 2017 |
| Corporate marketing, general and administrative expenses | **32** | 23 | **111** | 60 |
| Parkland's adjusted gross profit | **587** | 469 | **1,995** | 1,094 |
| Corporate marketing, general and administrative expenses as a % of Parkland's adjusted gross profit | **5.5%** | 4.8% | **5.6%** | 5.5% |

## Key Performance Indicators ("KPIs")

In addition to non-GAAP financial measures, Parkland uses a number of operational KPIs to measure the success of our strategic objectives and are also used to set variable compensation targets for employees. These KPIs are not accounting measures, do not have comparable IFRS measures, and may not be comparable to similar measures presented by other issuers, as other issuers may calculate these metrics differently.

| KPI | Description | Calculation | Why we use the KPI and why it is useful | Comments |
|---|---|---|---|---|
| **Company C-Store same-store sales growth ("Company C-Store SSSG")** | Company C-Store SSSG refers to sales growth generated by retail convenience stores at Company sites. The effects of opening and closing stores, temporary closures, expansions and renovations of stores in the period are excluded to derive a comparable same store metric. | Company C-Store SSSG is derived from the point-of-sale ("POS", i.e. cash register) value of goods and services sold to retail customers at convenience stores operated by retailers at Company sites. Specifically, current year POS sales of active sites are compared to prior year POS sales of comparable sites. Since Parkland generally collects fixed rent for the facilities plus a percentage rent on convenience store sales from the retailer and typically does not directly own or sell the convenience store inventory, POS amounts used to calculate Company C-Store SSSG are not a Parkland financial measure and do not form part of Parkland's consolidated financial statements. | Same-store sales growth is a metric commonly used in the retail industry that provides meaningful information to investors in assessing the health and strength of Parkland's brands and the Retail network, which ultimately impacts financial performance. | Results of sites acquired under the Ultramar Acquisition are included in the Company C-Store SSSG calculations for the three months and years ended December 31, 2018 and 2017. However, results of sites acquired under the Chevron Acquisition are excluded for these periods as comparable information is not available. |
| **Company Volume same-store sales growth ("Company Volume SSSG")** | Company Volume SSSG refers to fuel and petroleum product sales growth at active Company sites. The effects of opening and closing stores, temporary closures, expansions and renovations of stores in the period are excluded. | Company Volume SSSG is derived by comparing the current year volume of active sites to prior year volume of comparable sites. | Volume SSSG is a metric commonly used in the retail industry that provides meaningful information to investors in assessing the health and strength of Parkland's brands and the Retail network, which ultimately impacts financial performance. | Results of sites acquired under the Ultramar Acquisition are included in the calculations of Volume SSSG for the three months and years ended December 31, 2018 and 2017. However, results of sites acquired under the Chevron Acquisition are excluded for these periods as comparable information is not available. |
| **Measures calculated on a cents-per-litre ("cpl") basis** | Financial measures calculated on a cpl basis (e.g. operating costs - cpl) refer to the specific financial metric for a litre of fuel and petroleum product sold in the related segment. | The financial measure (e.g. adjusted gross profit, operating costs, etc.) is divided by the relevant fuel and petroleum product volume of the segment to arrive at the cpl basis. | Cpl metrics are used by management to identify trends in financial measures while removing the impact of volume variability, where appropriate. | |
| **Refinery utilization** | Refinery utilization refers to the amount of crude oil that is run through the crude distillation units compared to crude throughput. | The amount of crude oil that is run through the crude distillation units expressed as a percentage of the 55,000 barrels per day crude distillation capacity at the Burnaby Refinery. | Refinery utilization provides meaningful information to investors in evaluating the operational performance of the refinery. | A higher utilization generally allows for more efficient operations and lower costs per barrel. |
| **Crude throughput** | Crude throughput refers to the amount of crude oil that is processed and converted to products in the refinery. | The amount of crude oil that runs through crude distillation units expressed in thousands of barrels per day. | Crude throughput provides meaningful information to investors in evaluating the operational performance of the refinery. | A higher throughput generally allows for more efficient operations and lower costs per barrel. |
| **Annual Synergies** | Annual Synergies is a forward-looking estimate of forecasted improvements in Adjusted EBITDA driven by increases in adjusted gross profit and reductions in operating costs and marketing, general and administrative expenses expected to be realized from integrating the Acquisitions and other related initiatives. | This estimate is stated as a comparison of the acquisitions' performance before and after acquisition, presented as a forecasted annualized run-rate measure. This forward-looking estimate is based on comparative analysis of organizational structures, level of spending, and contract structures, as well as synergies expectations and cost reductions from implementing integration initiatives, increased purchasing power, and contract renegotiations, among other items. | Annual Synergies is used to measure synergy expectations of acquisitions against their investment business case. | Changes to these assumptions, market conditions, commodity prices, and timing of implementation of initiatives can significantly impact Annual Synergies. See Section 14 of this MD&A. |

| KPI | Description | Calculation | Why we use the KPI and why it is useful | Comments |
|---|---|---|---|---|
| **Lost time injury frequency ("LTIF") and total recordable injury frequency ("TRIF")** | LTIF and TRIF are industry measures of health and safety that provide the number of lost time incidents and total recordable incidents, respectively, that occurred within a given period relative to a standardized number of hours worked. | LTIF and TRIF are calculated by multiplying the number of incidents by 200,000, divided by the total number of employee hours worked. | LTIF and TRIF provide meaningful information in evaluating performance in providing a safe working environment. LTIF represents the number of people for every 100 employees injured to an extent that they cannot perform any work for a minimum of one day, post-injury. | A lost time incident is one where an employee sustained a job-related injury or illness and was not able to work their next full shift. Recordable incidents include all instances where medical attention from a medical professional is required, even if the employee is able to work their next shift. |

### Glossary of terms

| Term | Definition |
|---|---|
| **Backcourt** | Terminology used in the retail gas industry that refers to the part of the retail station where convenience store merchandise and services such as car washes are sold. |
| **Forecourt** | Terminology used in the retail gas industry that refers to the part of a retail station where fuel is sold at the pump. |
| **Refining crack spread** | Terminology used in the oil and gas industry that refers to the general price differential between crude oil and petroleum products refined from it. |

## 14. FORWARD-LOOKING INFORMATION

### Caution regarding forward-looking information

This MD&A contains certain forward-looking information. Forward-looking information can generally be identified by words such as "believes", "expects", "expected", "will", "plan", "intends", "target", "would", "seek", "could", "projects", "projected", "anticipates", "estimates", "continues", or similar words. In particular, this MD&A contains forward-looking information including, without limitation, forward-looking statements regarding Parkland's:

- commitment to delivering competitive and sustainable returns to shareholders by being the partner of choice for our customers and suppliers, and how we plan to accomplish this mission;
- commitment to drive organic growth by innovatively pursuing opportunities to increase gross profit, focusing on delivering a great customer experience and continuously improving efficiencies;
- strategy to reliably and consistently purchase large volumes of the full range of refined products produced by refineries in the geographic markets we operate;
- goal to deliver a supply advantage by leveraging market inefficiencies and being a partner of choice for refiners;
- expectations regarding the completion of previously announced transactions;
- expectations regarding the anticipated benefits of acquisitions, including the Acquisitions, the Rhinehart Acquisition and the Sol Transaction;
- expected exercise of the put right for Sol Limited to sell and a call right for Parkland to acquire the remaining outstanding shares of Sol and the terms thereof;
- expectations regarding the accretive effects of acquisitions and the anticipated benefits and synergies of such acquisitions, including the timing of the synergies, success and implementation of the systems integration and its additions to Parkland's fuel sales, Adjusted EBITDA and distributable cash flow;
- business and growth strategies, including the manner in which such strategies will be implemented;
- anticipation of building on the On the Run / Marché Express convenience store franchise system and related trademarks in Canada, providing a strong retail platform for Parkland to expand and support the Parkland Retail offering across Canada, including, but not limited to, the success of the Flagship and Retrofit site concepts and the profitability of the private label brand, 59th Street Food Co.;
- ability to use market inefficiencies to its advantage by acting on arbitrage opportunities as well as leveraging unbranded volume, transportation, relationships and strategic storage capabilities;
- strategy to optimize the value of other products that are not sold through its "owned" marketing channels;
- platform for growth in North America and the Caribbean;
- ability to build and leverage relationships with the objective of being the buyer of choice for prospective vendors;
- ability to effectively integrate acquisitions to drive operational efficiency, create synergies and generate shareholder value;
- ability to operate the Burnaby Refinery profitably;
- ability to deliver competitive returns to shareholders;
- expectations regarding the effects of seasonality on demand for products offered by the Commercial and Retail business segments;
- ability to meet payment obligations as they come due;
- capital investment philosophy;
- intention in respect of dividend payments;
- anticipated sources of liquidity to fund maintenance capital, interest, income taxes, targeted dividends and other committed capital expenditures;
- expected sources for growth capital expenditures, future acquisitions and debt servicing payments;
- expectations regarding Annual Synergies and 2019 Guidance Range;
- ability to adjust capital spending and to adjust dividends paid to shareholders; and
- expectations regarding the benefits, including benefits to consumers and marketplace efficiencies, and financial projections of the Acquisitions, Rhinehart Acquisition and Sol Transaction.

The forward-looking information contained herein is based upon Parkland's current views with respect to future events based on certain material factors and assumptions. As such, readers are urged to consider the factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements.

The forward-looking statements contained in this MD&A are based upon a number of material factors and assumptions including, without limitation:
- the regulatory framework that governs the operation of Parkland's business;
- Parkland's ability to successfully integrate the Acquisitions and Rhinehart Acquisition into Parkland's operations;
- Parkland's ability to realize synergies and cost reductions from the implementation of integration initiatives, increased purchasing power, and contract renegotiations, among other items;
- commodity prices for gasoline, diesel, propane, lubricants, heating oil and other high-quality petroleum products;
- refining crack spreads per barrel and US dollar foreign exchange rates;
- financial market conditions, including interest rates and exchange rates;
- ability to successfully expand Parkland's business into the Caribbean;
- ability of suppliers to meet commitments;
- ability to retain key management;
- Parkland's future debt levels;
- Parkland's ability to generate sufficient cash flows from operations to meet its current and future obligations;
- future capital expenditures to be made by Parkland;
- access to, and terms of, future sources of funding for Parkland's capital program; and
- Parkland's ability to continue to compete in a competitive landscape, as well as the additional factors referenced in the Annual Information Form.

These forward-looking statements involve numerous assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking information contained herein is based upon Parkland's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties including, without limitation, changes in market, competition, governmental or regulatory developments, and general economic conditions and other factors under the heading "Risk Factors" in the Annual Information Form. More specifically, certain material factors and assumptions that could cause actual results to vary materially from those anticipated include, without limitation:
- general market conditions
- ability to execute on our business and growth strategy and realize the benefits therefrom;
- ability to realize the benefits from our core capabilities;
- ability to capture value in each step of the value chain;
- ability to realize the expected benefits, synergies and opportunities from acquisitions;
- ability to secure future capital to support and develop our business, including the issuance of additional common shares;
- ability to secure funding to finance the consideration payable to acquire the remaining portion of the Sol shares;
- effectiveness of Parkland's management systems and programs;
- factors and risks associated with retail pricing, margins and refining crack spreads;
- factors and risks associated with the Sol Transaction, as further particularized in Section 9 of this MD&A;
- availability and pricing of petroleum product supply;
- volatility of crude oil prices;
- the competitive environment of our industry in North America and the Caribbean;
- environmental impact;
- risk of pending or future litigation;
- interest rate and foreign exchange rate fluctuations;
- potential undisclosed liabilities (including environmental) associated with the Acquisitions, Rhinehart Acquisition and Sol Transaction;
- failure to meet financial, operational and strategic objectives and plans; and
- availability of capital and operating funds.

Additional information on these and other factors that could affect Parkland's operations or financial results is discussed in this MD&A, the Annual Information Form and other continuous disclosure documents (available under Parkland's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or Parkland's website at www.parkland.ca).

The forward-looking statements speak only as of the date of this MD&A and Parkland does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by these cautionary statements.

## 15. FOURTH QUARTER SEGMENT INFORMATION

| Segment information | Retail | | Commercial | | Supply | | Parkland USA | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **For the three months ended December 31,** | **2018** | 2017 | **2018** | 2017(5) | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Fuel and petroleum product volume (million litres)(1)(5)** | **1,742** | 1,731 | **820** | 850 | **1,470** | 1,621 | **322** | 230 | **–** | — | **4,354** | 4,432 |
| **Sales and operating revenue** | | | | | | | | | | | | |
| Gas and diesel(5) | **1,486** | 1,489 | **526** | 501 | **484** | 389 | **257** | 155 | **–** | — | **2,753** | 2,534 |
| Liquid petroleum gas(2) | **–** | — | **61** | 66 | **167** | 156 | **3** | 1 | **–** | — | **231** | 223 |
| Other fuel and petroleum products(2) | **–** | — | **107** | 102 | **178** | 372 | **–** | — | **–** | — | **285** | 474 |
| Fuel and petroleum product revenue(5) | **1,486** | 1,489 | **694** | 669 | **829** | 917 | **260** | 156 | **–** | — | **3,269** | 3,231 |
| Convenience store | **89** | 92 | **–** | — | **–** | — | **19** | 9 | **–** | — | **108** | 101 |
| Lubricants | **–** | — | **16** | 17 | **–** | — | **54** | 15 | **–** | — | **70** | 32 |
| Other non-fuel(2) | **21** | 19 | **24** | 31 | **18** | 10 | **16** | 5 | **–** | — | **79** | 65 |
| Non-fuel revenue | **110** | 111 | **40** | 48 | **18** | 10 | **89** | 29 | **–** | — | **257** | 198 |
| Sales and operating revenue(5) | **1,596** | 1,600 | **734** | 717 | **847** | 927 | **349** | 185 | **–** | — | **3,526** | 3,429 |
| **Cost of purchases** | | | | | | | | | | | | |
| Fuel and petroleum product cost of purchases(5) | **1,352** | 1,335 | **620** | 596 | **525** | 767 | **244** | 148 | **–** | — | **2,741** | 2,846 |
| Non-fuel cost of purchases | **75** | 75 | **27** | 31 | **9** | 3 | **67** | 20 | **–** | — | **178** | 129 |
| Cost of purchases(5) | **1,427** | 1,410 | **647** | 627 | **534** | 770 | **311** | 168 | **–** | — | **2,919** | 2,975 |
| **Adjusted gross profit** | | | | | | | | | | | | |
| Fuel and petroleum product adjusted gross profit, before the following: | **134** | 154 | **74** | 73 | **304** | 150 | **16** | 8 | **–** | — | **528** | 385 |
| (Loss) gain on risk management and other derivatives - realized | **–** | — | **–** | — | **(13)** | 4 | **–** | — | **–** | — | **(13)** | 4 |
| Gain on foreign exchange - realized | **–** | — | **–** | — | **4** | 1 | **–** | — | **5** | 1 | **9** | 2 |
| Other adjusting items(3) | **–** | — | **–** | — | **(13)** | 9 | **–** | — | **(3)** | — | **(16)** | 9 |
| Fuel and petroleum product adjusted gross profit | **134** | 154 | **74** | 73 | **282** | 164 | **16** | 8 | **2** | 1 | **508** | 400 |
| Non-fuel adjusted gross profit | **35** | 36 | **13** | 17 | **9** | 7 | **22** | 9 | **–** | — | **79** | 69 |
| Total adjusted gross profit | **169** | 190 | **87** | 90 | **291** | 171 | **38** | 17 | **2** | 1 | **587** | 469 |
| Operating costs | **76** | 81 | **48** | 50 | **73** | 59 | **21** | 10 | **–** | — | **218** | 200 |
| Marketing, general and administrative | **15** | 15 | **12** | 12 | **19** | 18 | **6** | 3 | **32** | 23 | **84** | 71 |
| **Adjusted EBITDA** | **78** | 94 | **27** | 28 | **199** | 94 | **11** | 4 | **(30)** | (22) | **285** | 198 |
| Depreciation and amortization | | | | | | | | | **79** | 69 | **79** | 69 |
| Finance costs | | | | | | | | | **62** | 48 | **62** | 48 |
| Loss on asset disposals | | | | | | | | | **–** | 3 | **–** | 3 |
| Acquisition, integration and other costs | | | | | | | | | **24** | 41 | **24** | 41 |
| (Gain) loss on risk management and other derivatives - unrealized | | | | | | | | | **(24)** | 6 | **(24)** | 6 |
| Loss (gain) on foreign exchange - unrealized | | | | | | | | | **47** | (1) | **47** | (1) |
| Other adjusting items(3) | | | | | | | | | **(16)** | 9 | **(16)** | 9 |
| Income tax expense (recovery) | | | | | | | | | **36** | (26) | **36** | (26) |
| **Net earnings** | | | | | | | | | | | **77** | 49 |
| Property, plant and equipment and intangible asset additions | **59** | 20 | **19** | 7 | **23** | 33 | **4** | 2 | **4** | 3 | **109** | 65 |
| Property, plant and equipment, intangible asset and goodwill acquisitions(4) | **2** | 475 | **–** | 84 | **–** | 867 | **45** | — | **–** | 195 | **47** | 1,621 |

(1) Fuel and petroleum product volume represents external volumes only. Intersegment volumes are excluded.

(2) Liquid petroleum gas includes propane and butane. Other fuel and petroleum products include crude oil, aviation fuel, asphalt, fuel oils, gas oils, ethanol and biodiesel. Other non-fuel includes rent, freight, tanks and parts installation, cylinder exchanges, and other products and services.

(3) Other adjusting items include a $13 unrealized gain (2017 – $9 unrealized loss) on Intermediation Facility Derivatives within fuel and petroleum product cost of purchases and $3 realized gain (2017 – nil) on foreign exchange relating to refinancing activities.

(4) Certain comparative figures have been revised. See Note 19 – Business Combinations.

(5) For comparative purposes, gas and diesel fuel and petroleum product volume, sales and operating revenue, and cost of purchases for the three months ended December 31, 2017 were restated for a reclassification from Commercial to Supply, reflecting a change in customer service delivery structure in 2018.

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