PEMBINA PIPELINE INCOME FUND

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2007

March 26, 2008

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GLOSSARY OF TERMS

Terms used in this Annual Information Form and not otherwise defined have the meanings set forth below:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended from time to time;

"**Administration Agreement**" means the administration agreement between the Manager and the Fund dated September 4, 1997, as amended April 30, 1999, pursuant to which the Manager provided certain administrative services to the Fund prior to the Management Internalization. See "General Development of the Fund – Management Internalization";

"**Alberta Pipelines**" means those pipelines servicing the conventional production in Alberta including the Peace System, the Northern System, the Drayton Valley System, the Swan Hills System, the Brazeau/Caroline System, the Miscible Flood System, the Cremona System and the Non-Operated Systems;

"**AOSPL**" means Alberta Oil Sands Pipeline Ltd.;

"**B.C. Pipelines**" means the NEBC System and the Western System;

"**BCUC**" means the British Columbia Utilities Commission;

"**Brazeau/Caroline System**" means the approximately 250 kilometre pipeline system delivering NGLs from natural gas processing plants southwest of Edmonton, Alberta and from Caroline, Alberta to the Bonnie Glen System or to Fort Saskatchewan, Alberta;

"**Bonnie Glen System**" means the approximately 250 kilometre pipeline system and related facilities delivering crude oil and condensate from central Alberta to Edmonton, Alberta;

"**Canadian Natural**" means Canadian Natural Resources Limited;

"**Cheecham Lateral**" means the 56 kilometre lateral pipeline for the delivery of SCO from an existing pump station on the Syncrude System to a new terminalling facility located near Cheecham, Alberta;

"**condensate**" means a mixture consisting primarily of pentanes and heavier hydrocarbon liquids;

"**Convertible Debentures**" means the 7.35% convertible unsecured subordinated debentures which, subject to prior redemption or conversion, mature December 31, 2010, all of which are described in greater detail in Note 8 to the Fund's audited consolidated financial statements for the year ended December 31, 2007;

"**Cremona System**" means the approximately 340 kilometre pipeline system delivering crude oil, condensate and butane from northwest of Calgary, Alberta to either the BP Amoco Rangeland Pipeline or to Bowden, Alberta;

"**Declaration of Trust**" means the declaration of trust dated September 4, 1997, as amended April 30, 1998, as further amended and restated April 30, 1999 and as further amended April 28, 2000, as may be amended, supplemented or restated from time to time, pursuant to which the Fund was created. See "Description of the Fund and the Trust Units – Declaration of Trust" and "Material Contracts";

"**Dow Canada**" means Dow Chemical Canada Inc.;

"**Drayton Valley System**" means the approximately 1,250 kilometre pipeline system and related facilities delivering crude oil and condensate production to Edmonton, Alberta from the area southwest of Edmonton, Alberta;

"**ERCB**" means the Energy Resources Conservation Board of the Government of Alberta;

"**Exempt Plan**" means a registered retirement savings plan, registered retirement income fund, registered education savings plan or deferred profit savings plan under the Tax Act;

"**Extraordinary Resolution**" means a resolution passed by a majority of not less than 66 2/3% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 2/3% of the Trust Units entitled to be voted on such resolution;

"**Floating Rate Senior Notes**" means the $75 million aggregate principal amount of unsecured senior notes due 2009 and having a floating rate of interest, issued by PPC on a private placement basis in June 2004;

"**Fund**" means Pembina Pipeline Income Fund, an unincorporated, open-ended trust established under the laws of Alberta;

"**Governance Agreement**" means the agreement entered into as of October 24, 1997, as amended and restated April 30, 1999, and as further amended April 28, 2000, and as may be further amended, supplemented or restated from time to time, among the Fund, the Manager, and PPC. See "Directors and Officers – Governance Agreement";

"**Horizon Pipeline**" means the pipeline system proposed to be constructed by the twinning of the existing 22-inch Syncrude System mainline and construction of a new pipeline from the Horizon Project to connect with the existing Syncrude System, which will be dedicated to the Horizon Project;

"**Horizon Project**" means Canadian Natural's Horizon Oil Sands Project located approximately 70 kilometres north of Fort McMurray, Alberta;

"**Internalization Agreement**" means the share purchase agreement dated June 30, 2006 among PPC and the former shareholders of the Manager pursuant to which the Management Internalization was completed. See "General Development of the Fund – Management Internalization";

"**Kinder Morgan Pipeline**" (previously known as the Trans Mountain Pipeline) means the Kinder Morgan Pipe Line system delivering crude oil and refined products from Edmonton, Alberta to Vancouver, British Columbia;

"**Management Agreement**" means the agreement between PPC and the Manager dated October 24, 1997, as amended and restated July 1, 2001 and June 30, 2006, pursuant to which the Manager provided management services to PPC and the other operating subsidiaries of the Fund prior to the Management Internalization. See "General Development of the Fund – Management Internalization";

"**Management Internalization**" has the meaning ascribed thereto under "General Development of the Fund - Management Internalization";

"**Manager**" means Pembina Management Inc., an ABCA corporation that is owned by PPC and which, prior to the Management Internalization was owned by the executive officers of PPC and which was the administrator of the Fund pursuant to the Administration Agreement and provided management services to PPC and the other operating subsidiaries of the Fund pursuant to the Management Agreement. See "General Development of the Fund – Management Internalization";

"**Merchant Assets**" has the meaning ascribed thereto under "General Development of the Fund -Developments in 2007 – Midstream Business";

"**Miscible Flood System**" means the approximately 270 kilometre pipeline system delivering NGLs from Fort Saskatchewan, Alberta and Judy Creek, Alberta to miscible flood projects in northwestern Alberta;

"**NEB**" means National Energy Board;

"**NEBC System**" means the approximately 580 kilometre pipeline system delivering crude oil and condensate from northeastern British Columbia and northwestern Alberta to Taylor, British Columbia;

"**Nipisi Project**" has the meaning ascribed thereto under "General Development of the Fund -Developments in 2007 Conventional Pipelines – Nipisi Project";

"**NGL System**" means, collectively, the Brazeau/Caroline System and the Miscible Flood System;

"**NGLs**" means natural gas liquids, including ethane, propane, butane and pentanes plus;

"**Non-Operated Systems**" means, collectively, the Bonnie Glen System and the Wabasca System;

"**Northern System**" means the approximately 650 kilometre pipeline system delivering crude oil from Taylor, British Columbia into the Swan Hills System and the Miscible Flood System;

"**NOVA Chemicals**" means NOVA Chemicals Corporation;

"**Peace System**" means the approximately 2,050 kilometre pipeline system and related facilities delivering light crude oil, condensate, propane mix and ethane mix from northeastern British Columbia and northwestern Alberta to Edmonton, Alberta and to Fort Saskatchewan, Alberta;

"**Pembina**" means the Fund and its subsidiaries, taken as a whole;

"**PPC**" means Pembina Pipeline Corporation, an ABCA corporation that is a wholly-owned subsidiary of the Fund;

"**PPC Directors**" means the directors of PPC from time to time;

"**PPC Notes**" means the unsecured, subordinated promissory notes issued to the Fund from time to time by PPC;

"**PPC Shares**" means the common shares of PPC, all of which are owned by the Fund;

"**Proposed Royalty Regime**" has the meaning ascribed thereto under "General Development of the Fund - Developments in 2007 – Other Matters – Alberta Royalty Review";

"**Record Date**" means the dates on which Unitholders of record will be entitled to distributions paid by the Fund, currently being the last day of each calendar month, and such other dates as may be determined from time to time by the Trustee;

"**SCADA system**" means a supervisory control and data acquisition system. See "Description of Pembina's Business and Operations - Information and Communication Systems";

"**SCO**" means synthetic crude oil;

"**Secured Senior Notes**" means the $100 million aggregate principal amount of senior secured notes due 2017 and bearing interest at 7.38% per annum issued by PPC on a private placement basis in July 2002, of which $86.7 million principal amount were outstanding as of December 31, 2007;

"**Senior Notes**" means, collectively, the Secured Senior Notes, the Unsecured Senior Notes, the Floating Rate Senior Notes and the Series C Senior Notes;

"**Series C Senior Notes**" means the $200 million aggregate principal amount of unsecured senior notes of PPC issued September 30, 2006 and due September 30, 2021 and which bear interest at a fixed rate of 5.58% per annum;

"**SIFT Tax**" has the meaning ascribed thereto under "General Development of the Fund - Developments in 2007 – Other Matters – Changes to Taxation of Income Trusts";

"**Storage Agreement**" means the twenty year storage agreement entered into effective May 13, 2003 among the Storage LP, Dow Canada and NOVA Chemicals. See "Description of Pembina's Business and Operations – Overview – Midstream Business";

"**Storage Facility**" means the underground ethylene storage facility and related lands and equipment located at Fort Saskatchewan, Alberta in which Pembina indirectly acquired a 50% interest on June 24, 2003;

"**Storage GP**" means the Fort Saskatchewan Ethylene Storage Corporation, the general partner of the Storage LP, owned 50% by Pembina and 50% by Dow Canada;

"**Storage LP**" means the Fort Saskatchewan Ethylene Storage Limited Partnership, an Alberta limited partnership, owned, directly and indirectly, 50% by Pembina and 50% by Dow Canada;

"**Swan Hills System**" means the approximately 500 kilometre pipeline system delivering light sweet crude oil from the Swan Hills area in Alberta, and from Acheson/Ellerslie in Alberta, to Edmonton, Alberta;

"**Syncrude**" or the "**Syncrude Project**" means the joint venture that was formed for the recovery of oil sands, crude bitumen or products derived therefrom from the Athabasca oil sands, located near Fort McMurray, Alberta;

"**Syncrude System**" means the approximately 430 kilometre pipeline system delivering SCO from Syncrude's production facilities north of Fort McMurray, Alberta into the Edmonton, Alberta area, formerly referred to as the AOSPL System;

"**Tax Act**" means the *Income Tax Act* (Canada), as amended from time to time;

"**throughput**" means volume of product delivered through a pipeline;

"**Trustee**" means Computershare Trust Company of Canada, in its capacity as trustee of the Fund, or such other trustee of the Fund that may be appointed from time to time;

"**Trust Units**" means the units of the Fund, each unit representing an equal undivided beneficial interest in the Fund;

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

"**Unitholders**" means the holders of Trust Units from time to time;

"**Unsecured Senior Notes**" means the $175 million aggregate principal amount of unsecured senior notes due 2014 and bearing interest at 5.99% per annum issued by PPC on a private placement basis in June 2004;

"**Wabasca System**" means the approximately 190 kilometre pipeline system delivering crude oil from the East Peace River Arch area of northern Alberta to the Rainbow Pipeline System, which is not owned or operated by Pembina; and

"**Western System**" means the approximately 820 kilometre pipeline system delivering crude oil from Taylor, British Columbia to Kamloops, British Columbia.

In this Annual Information Form, all references to "**$**" or "**dollars**" means Canadian dollars unless otherwise specified.

All information in this Annual Information Form is presented as of December 31, 2007 unless otherwise indicated.

ABBREVIATIONS AND CONVERSIONS

In this Annual Information Form, the following abbreviations have the indicated meanings.

bbl and bbls	barrel and barrels, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons
bbls/d	barrels per day
mbbls/d	thousands of barrels per day

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To convert from	To	Multiply by
bbls	cubic metres	0.159
cubic metres	bbls	6.293
miles	kilometres	1.609
kilometres	miles	0.621

NON-GAAP MEASURES

The Fund's audited consolidated financial information for the year ended December 31, 2007, which may be found on the Fund's company profile on the SEDAR website at www.sedar.com, is presented in compliance with Canadian generally accepted accounting principles ("**GAAP**"). Certain of this financial information is contained within this Annual Information Form. Readers should also take note, however, that within this Annual Information Form the term "net operating income" is used to describe certain financial information of the Fund and that this term is not defined by GAAP. This term is equal to revenue less operating expenses, as applicable in the context in which it is used.

Pembina believes that the term "net operating income" is a useful measure. Pembina believes it provides an indication of the results generated by the Fund's business activities prior to consideration of how the activities were financed or how the results are taxed. Readers should be cautioned however that "net operating income" should not be construed as an alternative to the Fund's net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of the Fund's performance (as such are used in the Fund's audited consolidated financial information for the year ended December 31, 2007). Furthermore, these measures may not be comparable to similar measures presented by other issuers.

For more information with respect to financial measures which have not been defined by GAAP, see the "Non-GAAP Measures" section of the Fund's management's discussion and analysis for the year ended December 31, 2007, which has also been filed on the Fund's SEDAR profile at www.sedar.com.

FORWARD-LOOKING STATEMENTS AND INFORMATION

The information contained in this Annual Information Form contains certain forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward-looking statements and information can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "intends" "targets", "believes", "estimates", "continues", "objectives", "strategy" and similar expressions and relate to, among other things:

- changes in legislation relating to the Fund and its structure, including income tax considerations and the treatment of income and mutual fund trusts;
- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, facilities or other energy infrastructure;
- pipeline system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- the Fund's strategy and the development of new business initiatives, including the Fund's midstream business, the Nipisi Project, the Horizon Pipeline, and the condensate initiative;
- expectations regarding Pembina's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under governmental regulatory regimes including environmental regulations and related abandonment and reclamation obligations;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash distributions and the tax treatment thereof;
- operating risks and related insurance coverage and inspection and integrity systems; and
- competitive conditions.

These statements and information are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties, including, but not limited to: the impact of competitive entities and pricing; reliance on key alliances and agreements; the strength and operations of the oil and natural gas production industry and related commodity prices; actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation; fluctuations in operating results; changes in general economic and market conditions in Canada, North America and elsewhere, including changes in interest rates or foreign currency exchange rates; the risks set out herein under "Risk Factors" and certain other risks detailed from time to time in the Fund's public disclosure documents. The Fund believes that the expectations reflected in these forward-looking statements and information are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct. Undue reliance should not be placed on these forward-looking statements and information as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements and information. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Subject to the requirements of applicable securities laws, the Fund undertakes no obligation to update publicly or revise any forward-looking statements or information contained herein and such statements and information are expressly qualified by the above statements.

STRUCTURE OF THE FUND

Pembina Pipeline Income Fund

The Fund is an open-ended, single purpose trust established under the laws of the Province of Alberta pursuant to the Declaration of Trust. The Fund's operations commenced on October 24, 1997 following completion of its initial public offering on that date. The Fund holds, directly and indirectly, all of the issued and outstanding PPC Shares, the PPC Notes and one voting, non-participating share in one subsidiary of PPC. The principal office of the Fund is located at 2000, 700 - 9th Avenue S.W., Calgary, Alberta, T2P 3V4. For a description of the Fund and the Declaration of Trust, see "Description of the Fund and the Trust Units".

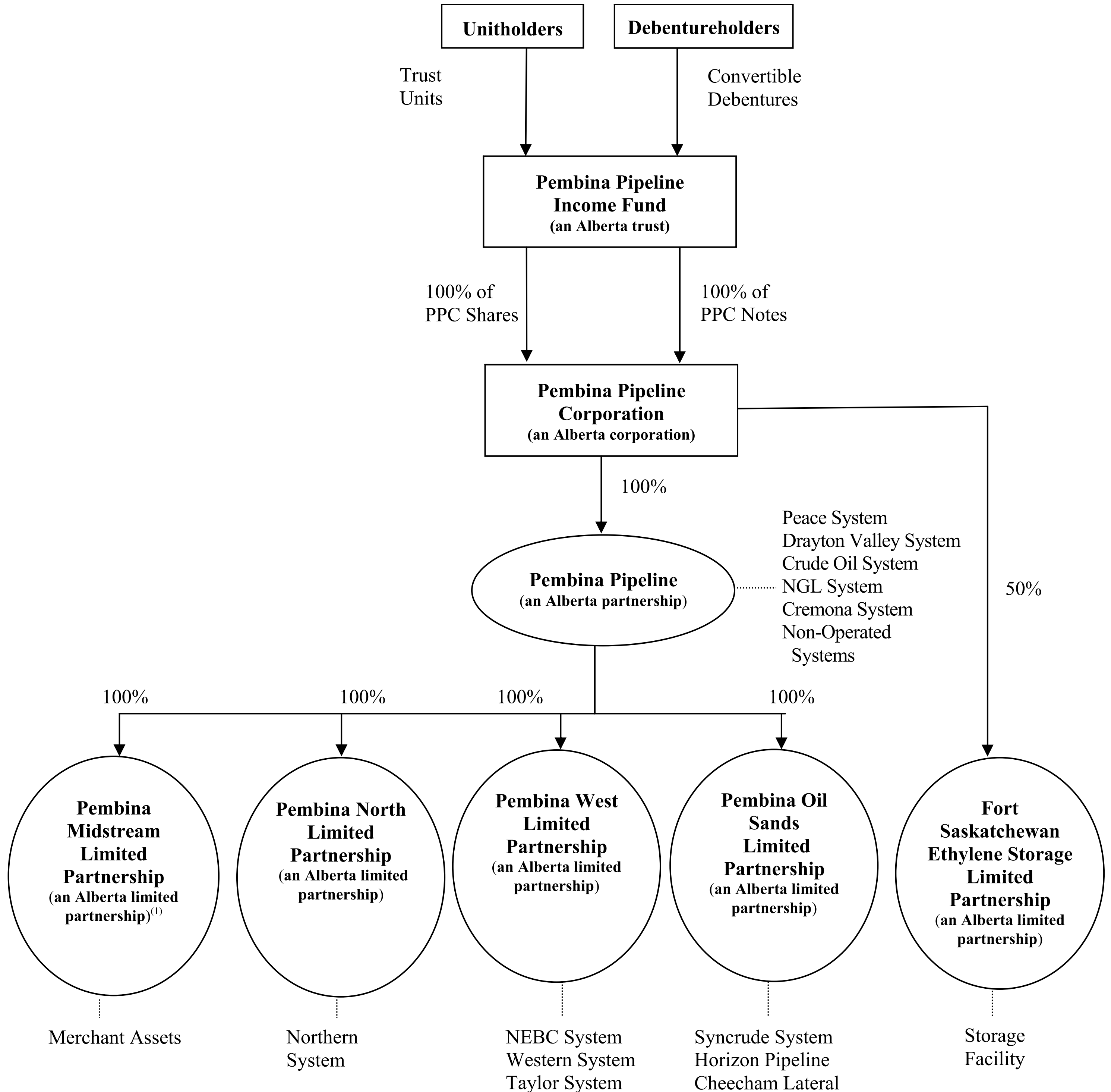
The Fund is restricted to investing solely in investments which a unit trust and a mutual fund trust may own in accordance with Section 132(6) of the Tax Act. The Fund's investments currently consist solely of the PPC Shares (with PPC owning, directly or indirectly, several other operating subsidiaries), the PPC Notes, and one voting, non-participating share in one subsidiary of PPC. The Fund makes monthly cash distributions to the Unitholders of the payments received by the Fund from PPC, less administrative and certain other costs of the Fund and after any cash redemptions of Trust Units. The Fund is totally dependent on the operations of PPC and the Fund's other indirectly-owned operating subsidiaries for cash ultimately distributed to Unitholders. The Fund's income is derived from the interest and repayments of capital on the PPC Notes and the dividends and repayment of capital on the PPC Shares. The amounts of these payments are generally equal to the net cash flow generated from Pembina's business and operations, less any amounts withheld for debt repayments or service charges, capital expenditures and working capital requirements. The Fund's administrative expenses generally consist of the fees and expenses paid to the Trustee pursuant to the Administration Agreement, the cost of reporting to Unitholders, regulatory compliance and administration of various legal agreements. Administrative expenses and cash redemptions currently represent only a nominal fraction of the Fund's income.

Pembina Pipeline Corporation and Other Operating Subsidiaries

PPC is an ABCA corporation which, directly or indirectly through its subsidiaries, owns interests in a diversified base of long life energy infrastructure consisting of conventional oil and NGLs pipeline systems and related facilities, contract-based oil sands pipeline systems and related facilities and other terminal, storage and hub facilities and services and infrastructure, and a midstream business including a 50% interest in an underground ethylene storage facility. The business segments of PPC are grouped for functional, geographic and accounting purposes into three categories: the conventional pipelines in Alberta and in British Columbia; the oil sands infrastructure; and the midstream business. See "Description of Pembina's Business and Operations" for a description of the business and operations of PPC and the other operating subsidiaries of the Fund.

Structure

The following chart indicates the Fund's major subsidiaries, including their jurisdictions of formation and the percentage of common equity or other ownership interest held or controlled, directly or indirectly, by the Fund or its subsidiaries.



Note:

(1) In 2007, Pembina transferred the Merchant Assets to Pembina Midstream Limited Partnership, a newly formed subsidiary. See "General Development of the Fund - Developments in 2007 – Midstream Business".

GENERAL DEVELOPMENT OF THE FUND

Developments in Last Three Years

In 2005, PPC executed a preliminary agreement with Canadian Natural for the Horizon Pipeline to provide dedicated pipeline transportation service from the Horizon Project to the Edmonton, Alberta area and a definitive agreement for construction of the Cheecham Lateral. See "Description of Pembina's Business and Operations – Overview - Oil Sands Infrastructure".

In 2006, Pembina executed definitive agreements with Canadian Natural and began construction on the Horizon Pipeline, continued the ongoing development of its conventional pipelines and midstream businesses and completed construction of the Cheecham Lateral. See "Description of Pembina's Business and Operations". Also in 2006, management of the Fund was internalized pursuant to the Management Internalization. See " - Management Internalization".

Developments in 2007

Conventional Pipelines

Additional Connections and Other Upgrades

During 2007, Pembina completed five new pipeline connections and one facility upgrade on the Alberta Pipelines. These growth opportunities and ongoing industry development of some of Pembina's mature service areas have offset the natural declines in conventional receipts in recent years. Pembina also continued to work on a number of new connections in the Resthaven, Lator and Puskwa areas, which Pembina expects to lead to additional receipts on these systems.

Product Segregation Facilities

In 2007, Pembina proceeded with product segregation facilities on the Drayton Valley System and the Peace System. The first phase of the project on the Drayton Valley System was completed and progress continued on the Peace System with one of the four necessary storage tanks completed during the third quarter of 2007 and two other tanks nearing completion. These facilities are designed to maintain, and possibly enhance, the crude oil stream quality for Pembina's customers in the current high commodity price environment. Pembina expects the Drayton Valley System facilities to cost approximately $32 million and the Peace System facilities to cost approximately $25 million. Pembina anticipates that these capital expenditures will be recovered through incremental tolls on crude oil receipts on both of these systems.

Western System Tolls

Following the expiry on June 30, 2007 of a five year toll settlement between the Western System and its customers, approved by the BCUC, increased tolls on the Western System were accepted by the BCUC on an interim basis beginning July 1, 2007. Pembina is working towards reaching toll settlement agreements with all of the shippers on the Western System, thus avoiding a toll hearing with the BCUC. A toll settlement agreement was signed on March 20, 2008 between Pembina and one of the largest shippers on the system, which agreement is subject to the approval of the BCUC. Pembina is currently working towards agreements with the other affected shippers. If settlement is not reached with all of the shippers, Pembina expects to have a toll hearing before the BCUC in the second quarter of 2008 with those shippers who have not settled. Pembina believes the tolls ultimately set or agreed upon will provide Pembina a reasonable return on its capital and reimbursement of its operating expenses.

Condensate Initiative

In 2007, Pembina continued to progress discussions with a number of stakeholders with regard to developing a condensate delivery system designed to transport 100,000 bbls/d of imported condensate from the west coast of

British Columbia to Edmonton, Alberta. This project, launched in mid-2005, would entail establishing a marine terminal at Kitimat, British Columbia and constructing a 465 kilometre pipeline from Kitimat to connect to Pembina's Western System near Summit Lake, British Columbia. If this project proceeds, Pembina intends to expand the capacity of its Alberta Pipelines to accommodate the imported incremental throughput.

Oil Sands Infrastructure

Horizon Pipeline

On November 9, 2006, Pembina announced that it had executed definitive agreements with Canadian Natural with respect to the Horizon Pipeline. Under the agreements, Pembina will provide dedicated pipeline transportation service of up to 250,000 bbls/d of SCO to the Horizon Project. The extendible twenty-five year agreement commencing on the in-service date of the Horizon Pipeline provides for a revenue stream to Pembina which is contract-based and is not throughput dependent.

The construction for the Horizon Pipeline consists of twinning Pembina's existing Syncrude System mainline to provide for two physically and commercially separate and distinct pipeline systems south of the Syncrude terminal and the construction of a new pipeline from the Syncrude terminal to the Horizon Project. Pembina expects construction to take place in three phases. The first phase, which consisted of the twinning of Pembina's Syncrude System with the installation of approximately 100 kilometres of 24-inch and 30-inch diameter pipeline, is complete.

In 2007, Pembina began work on the second and third phases of construction, which entail the installation of 50 kilometres of 24-inch and 16-inch pipeline in the Edmonton area (including a North Saskatchewan River Crossing) and the installation of 73 kilometres of 20-inch pipeline connecting the Horizon Project to the Syncrude System terminal and crossing of the Athabasca River. Construction on these phases is nearing completion with virtually all of the pipe currently in the ground. Commissioning is currently scheduled for mid-2008 and Pembina expects the pipeline will be available for service in July, 2008. Pembina estimates the total cost of the Horizon Pipeline to be approximately $400 million. The increase from the previous estimate of $350 million is due primarily to cost escalation and changes to the scope of the project. Under the terms of the contract for the construction of the Horizon Pipeline, Pembina does not expect the increased costs to have any direct impact on Pembina. Canadian Natural will have exclusive use of one of the two physically and commercially separate pipelines and Syncrude, the shipper on the existing Syncrude System, will have exclusive use of the other pipeline. See "Risk Factors – Risks Inherent in Pembina's Business – Completion of the Horizon Pipeline".

Cheecham Lateral

In December 2005, PPC entered into definitive agreements with ConocoPhillips Surmont Partnership, Total E&P Canada Ltd., Nexen Inc. and OPTI Long Lake L.P. for the construction of the Cheecham Lateral to service these parties' oil sands projects. The Cheecham Lateral was completed at a cost of approximately $43 million during the fourth quarter of 2006. The Cheecham Lateral became operational during the second quarter of 2007 and Pembina realized the benefit of the first period of revenue contribution from this asset. The contract has a twenty-five year extendible term providing returns that are contract-based and are not throughput dependent.

Nipisi Project

In 2007, Pembina initiated a project for the transportation and terminalling of product from the Nipisi Lake and Seal areas of Alberta (the "**Nipisi Project**"). Pembina expects that this project, if it proceeds, will utilize a combination of existing and new infrastructure and will include a 22,000 barrels per day diluent pipeline and a 100,000 barrel per day heavy oil diluent pipeline. Pembina estimates that total capital expenditures for the Nipisi Project will be approximately $400 million, with a targeted start up date in mid-2010.

Midstream Business

In 2007, Pembina continued to expand its midstream business by adding additional services in the general areas of storage, terminalling and hub activities, including marketing, to the Swan Hills, Cremona and the Drayton Valley

Systems. Pembina also restructured its midstream business, effective January 1, 2008. This restructuring involved the creation of a new wholly-owned subsidiary of Pembina, Pembina Midstream Limited Partnership, and the transfer of all of the midstream storage (excluding the Storage Facility), terminalling, hub activities and marketing assets of Pembina (the "**Merchant Assets**") to Pembina Midstream Limited Partnership. The purpose of this was to segregate the activities of the midstream business from Pembina's other business units. See "Description of Pembina's Business and Operations – Overview – Midstream Business".

Other Matters

Increase in Cash Distribution

On August 1, 2007, the Fund announced that the PPC Directors had approved an increase in the Fund's distribution rate for payments beginning in September 2007, of 5% to $0.12 per Trust Unit per month ($1.44 per Trust Unit per year), up from $0.11 per Trust Unit per month ($1.32 per Trust Unit per year) paid since September 2006.

Convertible Debenture Maturity

On June 30, 2007 the Fund's 7.50% convertible unsecured subordinated debentures matured. These convertible debentures were originally issued on December 4, 2001 with a principal amount of $87.5 million. Upon maturity of the 7.50% convertible debentures, the remaining balance of approximately $0.4 million was converted into Trust Units at $15.26 per Trust Unit. See "Description of the Fund and the Trust Units – Convertible Debentures".

Suspension of Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan

As of June 30, 2007, Pembina has prorated its Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan to zero and, as such, the optional equity and premium cash payments under such plan have not been available to Unitholders in respect of cash distributions since that date. Pembina took this action as it currently prefers not to raise further equity investment. Pembina believes that it has sufficient bank facilities to fund current projects and may resume the plan in the future should it desire to raise new equity. See "Description of the Fund and the Trust Units – Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan".

Credit Facilities

On July 24, 2007, Pembina's revolving credit facilities were increased from $230 million to $500 and the expiration date was extended from July 24, 2011 to July 24, 2012. In addition, Pembina's $30 million operating facility was extended to July 24, 2008. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes".

Alberta Royalty Review

On February 16, 2007, the Alberta government began a review of its royalty regime for oil sands, conventional oil and natural gas and coalbed methane with the stated intention of assessing whether the existing royalty regime was providing Albertans with a fair return on Alberta's natural resources while maintaining an internationally competitive system that allows the Alberta economy to continue to prosper. In September 2007, the Government of Alberta received the final report and recommendations from the Alberta Royalty Review Panel (the "**Panel**"). Pembina joined its customers in expressing concern regarding the sweeping changes the Panel recommended and the potential consequences to oil and gas investment in Alberta should the recommendations be adopted in full. On October 25, 2007, the Alberta Government released a report entitled "The New Royalty Framework" which contained the government's proposals for Alberta's new royalty regime (the "**Proposed Royalty Regime**"). The Proposed Royalty Regime, while not adopting Panel recommendations in full, entails across-the-board increases to the royalty structure governing conventional oil and gas and oil sands production.

Changes to Taxation of Income Trusts

On October 31, 2006, the Canadian Federal Minister of Finance proposed to subject income of certain types of publicly traded mutual fund trusts to tax (the "**SIFT Tax**") at rates comparable to the combined federal and provincial corporate tax rates. This is accomplished by eliminating the trust's ability to deduct income distributions to unitholders, taxing the trust's income at corporate rates and treating distributions to unitholders as taxable dividends. The legislation governing the SIFT Tax (the "**SIFT Provisions**") became law on June 22, 2007.

The SIFT Provisions are not expected to apply to the Fund prior to 2011 provided the Fund restricts itself to "normal growth" during the transitional period ending December 31, 2010. However, any "undue expansion" during this transition period may cause the SIFT Tax to apply to the Fund before January 1, 2011. For these purposes, "normal growth" includes equity growth within certain "safe harbour" limits, measured by reference to a "specified investment flow through's" ("**SIFT**") market capitalization as of the end of trading on October 31, 2006 (which would include only the market value of the SIFT's issued and outstanding publicly traded trust units, and not any convertible debt, options or other interests convertible into or exchangeable for trust units). Those safe harbour limits are 40 percent for the period from November 1, 2006 to December 31, 2007, and 20 percent each for calendar year 2008, 2009 and 2010. Moreover, these limits are cumulative, so that any unused limit for a period carries over into the subsequent period. Additional details of the parameters of "normal growth" include the following:

- new equity for these purposes includes units and debt that is convertible into units (and may include other substitutes for equity if attempts are made to develop those);

- replacing debt that was outstanding as of October 31, 2006, with new equity will not be considered growth for these purposes and will not affect the safe harbour; and

- the exchange, for trust units, of exchangeable partnership units or exchangeable shares that were outstanding on October 31, 2006, will not be considered growth for these purposes and will not affect the safe harbour.

The Fund's market capitalization as of the close of trading on October 31, 2006, having regard only to the issued and outstanding publicly traded Trust Units at such date, was approximately $2.2 billion, which means the "safe harbour" equity growth amount for the period ending December 31, 2008 is approximately $1.3 billion, and for each of calendar year 2009 and 2010 is an additional approximately $0.4 billion per year (in any case, not including equity which could be issued to replace debt that was outstanding on October 31, 2006, which would result in the aggregate combined "safe harbour" growth amount to equal approximately $2.8 billion).

The enactment of the SIFT Provisions in 2007 has no additional impact on the future income tax liability of the Fund at the present time. The Fund has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability and, as the tax basis of the Fund’s investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature. See Note 11 to the Fund's audited consolidated financial statements for the year ended December 31, 2007. Pembina will continue to assess alternative organizational structures during the transition period available until 2011.

For additional information see "Risk Factors — Risks Relating to the Fund's Structure and Securities".

Management Internalization

Prior to June 30, 2006, all of the management functions for the Fund, PPC and the Fund's other direct and indirect subsidiaries were generally performed by the Manager pursuant to the Administration Agreement and the Management Agreement, and the Manager's shares were held by executive officers of PPC. PPC also directly employed executive officers and other employees to manage and administer the business affairs of the Fund, PPC and those other subsidiaries. However, on June 30, 2006, the external management arrangements were effectively eliminated as the Fund, through PPC, acquired all of the shares of the Manager and the Manager delegated all of its duties under the Administration Agreement and the Management Agreement to PPC (the "**Management Internalization**"). As a result of the Management Internalization, all of the executive officers who previously

managed and administered the business and affairs of the Fund through the Manager entered into employment contracts with PPC effective July 1, 2006 and are now compensated only by PPC, and all fees payable by PPC to the Manager pursuant to the Administration Agreement and the Management Agreement were eliminated effective June 30, 2006.

Pursuant to the Internalization Agreement, the Fund, through PPC, acquired all of the issued and outstanding shares of the Manager for an initial purchase price of $6.0 million in cash consideration payable at closing in addition to a contingent deferred payment. The contingent deferred payment amount, payable in 2009, is linked to future growth in "cumulative distributable cash per Trust Unit" (as defined in the Internalization Agreement). As at December 31, 2007, based on certain assumptions including that the Fund's 2008 distributable cash is similar to the Fund's combined 2006 and 2007 distributable cash, the amount of such contingent deferred payment in 2009 would be approximately $9.5 million. The actual amount of such payment may be greater than or less than this amount. See Note 3 to the Fund's audited consolidated financial statements for the year ended December 31, 2007.

Pursuant to the Internalization Agreement, if a "change of control" (as defined in the Internalization Agreement) occurs prior to the final payment date for the contingent deferred payment, which is to occur in 2009, the balance of the purchase price payable to the former shareholders of the Manager shall become immediately payable based upon the best available estimates of the Fund's cumulative distributable cash per Trust Unit for the period from January 1, 2006 to December 31, 2008, rather than actual results. Such determination shall be made by a financial advisor and the resulting payments shall be made as soon as practicable and in any event within 90 days of the change of control. Furthermore, if a third party publicly announces that it has made or intends to make an unsolicited take-over bid or other similar transaction which might reasonably be expected to result in a change of control, and it is reasonably expected that the balance of the contingent deferred payment purchase price will exceed $2,000,000, PPC shall promptly after such announcement pay $2,000,000 in the aggregate to the former shareholders of the Manager in their proportionate amounts on account of PPC's obligation to pay the balance of the purchase price on the final payment date or upon the change of control occurring as contemplated above.

For a further description of such arrangements, please refer to the Internalization Agreement, a copy of which was filed as a "Material document" on June 30, 2006 on the Fund's SEDAR profile at www.sedar.com.

As a result of the Management Internalization, all fees payable by the Fund to the Manager under the Administration Agreement and the Management Agreement were eliminated effective June 30, 2006. In connection with the Management Internalization, the Manager delegated all of its duties under the Management Agreement and the Administration Agreement to PPC.

DESCRIPTION OF PEMBINA'S BUSINESS AND OPERATIONS

Pembina's Business Strategy and Opportunities

Pembina's principal objective is to provide a stable stream of distributions to its Unitholders that are sustainable over the long-term, while pursuing opportunities for distribution enhancement through accretive growth. Pembina's business strategy is to continue to maintain and develop its hydrocarbon-liquids services business within western Canada. Pembina plans to further develop this business through the continuous improvement and ongoing expansion of Pembina's asset base and the acquisition of quality energy infrastructure. Pembina believes that quality energy infrastructure is represented by assets containing inherent competitive advantages, that may be under long-term contract with creditworthy customers and either service or are in close proximity to long life and economic hydrocarbon reserves.

Conventional Pipelines

The primary objective for Pembina's conventional pipeline assets is safe, reliable operations and the maintenance of operating margin contribution while pursuing opportunities for increased throughput and revenue enhancement. Margins are maintained through incremental volume capture, use of toll management, strict adherence to operating cost control, expansion and asset rationalization. By offering cost effective, competitively positioned and reliable

transportation services to its customers, Pembina undertakes to attract new business to its conventional pipeline systems.

Energy industry fundamentals benefited Pembina's conventional pipeline business once again this year. Active exploration in Pembina's service areas resulted in customer requests for new pipeline connections, facility expansions and service upgrades. Incremental volumes from these new developments continued to arrest the historical trend of declining throughputs on the conventional systems and contributed to Pembina's stronger year-over-year aggregate operating performance.

A number of Pembina's major systems have long term potential for miscible carbon dioxide ("**CO_2**") flooding. Several of Pembina's mature service areas have been identified by industry as good candidates for the application of this enhanced oil recovery technique. Producer sponsored CO_2 flood pilot projects and government research projects are currently underway in western Canada, including one in the Drayton Valley service area. Pembina's assets are strategically located to potentially transport incremental production derived from these projects at minimal incremental cost. Pembina may also have the opportunity to participate in the construction of new CO_2 pipelines using its existing infrastructure or rights-of-way.

Oil Sands Infrastructure

Pembina has leveraged its uniquely positioned infrastructure and operating knowledge in the oil sands area to pursue future opportunities in this key sector. Pembina's existing oil sands assets, and those recently developed or currently under development (primarily the Horizon Pipeline), will offer fully contracted and long-term returns which will provide a secure stream of stable cash flow to the Fund. Further expansion of Pembina's business interests in this area is a priority.

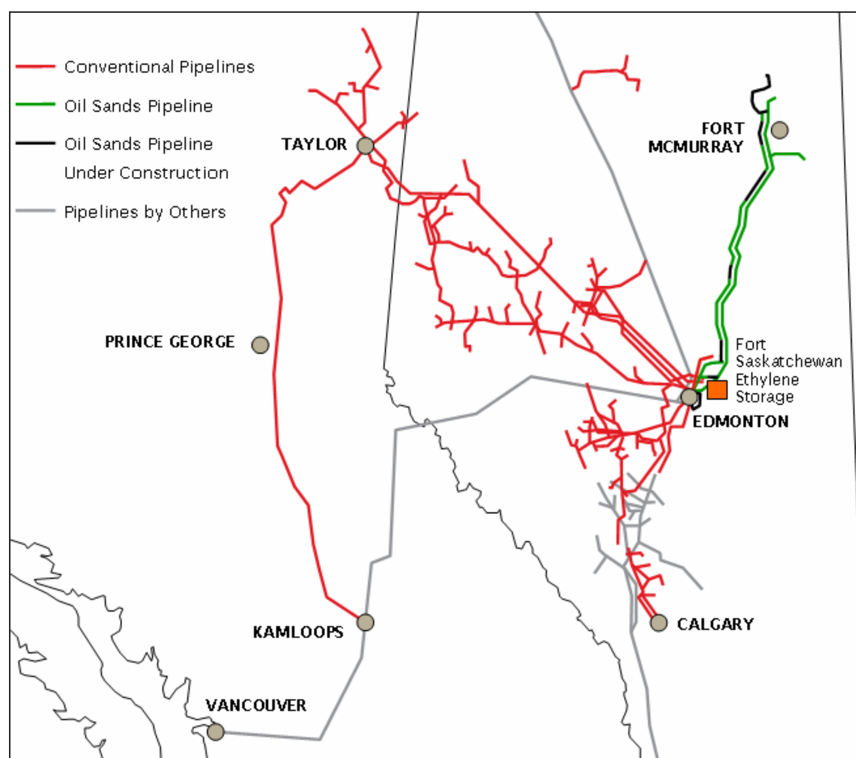
Midstream Business

Pembina is currently developing several initiatives to expand its midstream services. Pembina anticipates that developing midstream services in conjunction with its conventional pipeline systems will produce significant benefits to both pipeline customers and to Unitholders. The midstream strategy both expands the range of services offered to its customers and extends the economic life of Pembina's conventional asset base, with substantial revenue enhancement potential. For these reasons, further expansion of Pembina's midstream business is also a priority.

Overview

The three business segments of Pembina are the conventional pipelines in Alberta and British Columbia, the oil sands infrastructure and the midstream business. The following map illustrates Pembina's assets in the three business segments.

Pembina Assets



2007 Operating Highlights

	Conventional Pipelines		*Oil Sands Infrastructure*[3]		*Midstream Business*		*Total*	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Average throughput (mbbls/d)	**447.1**	448.5	**525.0**	389.0	n/a	n/a	**972.1**	837.5
Revenue ($ million)	**249.1**	223.0	**61.7**	62.1	**79.0**	50.7	**389.8**	335.8
Operating expenses ($ millions)	**97.3**	89.9	**23.7**	24.8	**8.6**	4.3	**129.6**	119.0
Net operating income ($ million)[1]	**151.8**	133.1	**38.0**	37.3	**70.4**	46.4	**260.2**	216.8
Average revenue ($/bbl)[2]	**1.43**	1.27	**0.54**	0.65	n/a	n/a	**1.08**	1.05

Notes:
(1) See "Non-GAAP Measures" on page vii.
(2) Midstream revenue is excluded in total average revenue per barrel calculation.
(3) Revenue is contract-based and independent of utilization rates, therefore volumes reported are contracted capacity.

Outlined below is a description of the operations of each of the conventional pipelines in Alberta and British Columbia, the oil sands infrastructure and the midstream business. Additional information regarding Pembina's results of operations for 2007 and future plans and outlook is contained in the Fund's management's discussion and analysis for the year ended December 31, 2007, an electronic copy of which is available through the internet on the Fund's SEDAR profile at www.sedar.com.

Conventional Pipelines – Alberta Pipelines

Overview

The Alberta Pipelines, a network of crude oil, condensate and NGLs pipelines located over an area of the Western Canadian Sedimentary Basin with both producing and developing oil and natural gas fields, serve a range of petroleum producing regions across the province and operate under competitive market-based tolling arrangements. These arrangements allow Pembina to respond to changes in economic and operating conditions and to one-time events in order to sustain the margin contribution from these systems.

Throughput on the Alberta Pipelines averaged 422,700 bbls/d in 2007, virtually unchanged from the 2006 average throughput of 425,800 bbls/d. The Alberta Pipelines continued to benefit from industry activity where five new crude oil battery connections and one new truck unloading facility completed during the year added throughput of over 7,600 bbls/d of crude oil to the Alberta Pipelines. The resulting increased volumes were offset by a reduction in natural gas liquids receipts of 9,800 bbls/d from several connected gas plants. Pembina has scheduled another eleven new connections for completion in 2008. Pembina expects that any incremental volumes will be offset by natural declines in throughputs.

The Alberta Pipelines generated revenue of $216.4 million in 2007, up from $195.2 million in 2006, a 10% increase. The completion of the Drayton Valley product segregation facilities in 2007 contributed to higher revenues on the Alberta Pipelines. See " - Conventional Pipelines - Alberta Pipelines - Drayton Valley System" below. Average revenue per barrel on the Alberta Pipelines of $1.40 in 2007 was up 14 cents per barrel compared to the average of $1.26 in 2006. Higher per barrel revenue on the Alberta Pipelines was partially attributable to toll adjustments implemented on certain systems in early 2007 resulting from capital expenditures associated with various service enhancements as well as from increasing costs relating to operations and the maintenance of a high level of integrity on the systems.

Peace System and Northern System

The Peace System and the Northern System serve mature and developing oil and natural gas fields in northwestern Alberta and northeastern British Columbia transporting light crude oil, condensate, propane mix and ethane plus mix in "batch" mode. The throughput of the Peace System and the Northern System collectively averaged 204,299 bbls/d in 2007 compared with 209,000 bbls/d in 2006.

Drayton Valley System

The Drayton Valley System, a network of gathering pipelines, transports crude oil and condensate produced from the long-life Pembina field southwest of Edmonton, Alberta. Throughput on the Drayton Valley System averaged 91,100 bbls/d in 2007, an increase from 2006 throughput of 84,600 bbls/d. The Drayton Valley product segregation facilities were completed in late 2007. These facilities physically separate low sulphur sweet crude from crude containing higher levels of sulphur, thus preserving the higher value of sweet crude for shippers Pembina anticipates flat or growing oil, NGLs and natural gas production in this area in 2008 with a continued increase in revenue due to the capital expenditures associated with the segregation facilities. Pembina believes that fields serviced by this system may be good candidates for significantly enhanced recovery should CO_2 flood pilot projects currently underway prove successful. See " – Pembina's Business Strategy and Opportunities" above.

Swan Hills System

The Swan Hills System gathers crude oil from 26 receipt points in the Swan Hills and Judy Creek areas of Alberta, as well as condensate from the Northern System, for delivery to Edmonton. Crude oil receipts were 59,100 bbls/d in 2007 compared to 60,200 bbls/d in 2006. Throughputs were stable over the year and Pembina anticipates little throughput decline in 2008.

NGL System

The NGL System consists of the Brazeau/Caroline System and the Miscible Flood System. The NGL System transported an average of 39,280 bbls/d of ethane mix during 2007 compared to 46,400 bbls/d in the prior year. Producers using the Miscible Flood System have extended the contract for an additional year of service on this line. Contracts for services on the Miscible Flood System are not throughput dependent and, as such, revenue generated by this system is independent of actual volumes transported.

Cremona System

The Cremona System transports crude oil, condensate and butane from 24 receipt points northwest of Calgary to the Rangeland Pipeline that moves product to Montana in the United States. Receipts on this system averaged 16,400 bbls/d in 2007, compared to 14,900 bbls/d in the preceding year, an increase of 10%.

Non-Operated Systems

Pembina holds a 50% undivided interest in the Bonnie Glen System and a 10% undivided interest in the Wabasca System. The other 50% of the Bonnie Glen System is owned by Imperial Oil Resources, which operates the system pursuant to a joint venture agreement with Pembina. The Wabasca System is operated by Keyera Facilities Income Fund, which holds the largest interest in the Wabasca System. Together, these systems comprise the Non-Operated Systems. Pembina's proportionate share of average throughputs on these systems in 2007 was 12,462 bbls/d compared to 10,500 bbls/d in 2006, representing approximately 1.6% of Pembina's total pipeline throughput.

Conventional Pipelines – B.C. Pipelines

Pembina's B.C. Pipelines serve the oil and natural gas producing region located in the northeastern quadrant of British Columbia. The B.C. Pipelines include the NEBC System, which consists of three crude oil gathering pipelines upstream of Taylor, British Columbia (the Blueberry, B.C. Light & Boundary Lake pipelines) and the truck-unloading and pipeline terminal at Taylor, and the Western System (which delivers to Prince George and Kamloops, B.C. for transmission to the west coast of Canada). These systems collectively transport approximately 95% of the crude oil and condensate produced in the province of British Columbia. The NEBC System gathered an average of 29,700 bbls/d of crude oil and condensate in 2007, compared to 32,300 bbls/d in 2006. Volumes shipped on the NEBC System are directed either down the Western System, or east on the Peace System. The Western System transported an average of 24,400 bbls/d compared to 22,700 bbls/d in 2006. The balance of 6,300 bbls/d of crude oil was shipped east on the B.C. Pipelines onto the Peace System into Edmonton and is included in the Peace System's throughput, as applicable.

Revenues generated by the provincially-regulated B.C. Pipelines are rate-based or, in the case of Western System, governed by shipper agreements, and was $32.7 million in 2007, a 17.6% increase from 2006 revenue of $27.8 million. This increase is due to higher revenue requirements on the provincially regulated B.C. Pipelines resulting from increased maintenance and capital expenditures. Following the expiry on June 30, 2007 of a five year toll settlement between the Western System and its customers, approved by the BCUC, increased tolls on the Western System were accepted by the BCUC on an interim basis beginning July 1, 2007. Pembina is working towards reaching toll settlement agreements with all of the shippers on the Western System, thus avoiding a toll hearing with the BCUC. A toll settlement agreement was signed on March 20, 2008 between Pembina and one of the largest shippers on the system, which agreement is subject to the approval of the BCUC. Pembina is currently working towards agreements with the other affected shippers. If settlement is not reached with all of the shippers, Pembina expects to have a toll hearing before the BCUC in the second quarter of 2008 with those shippers who have not settled. Pembina believes the tolls ultimately set or agreed upon will provide Pembina a reasonable return on its capital and reimbursement of its operating expenses. Revenue generated by the Western System will continue to be dependent on the marketing decisions of the system shippers who may elect to move product west on the Western System or east on the Peace System. See " – Industry Regulation and Tariffs" below.

Oil Sands Infrastructure

Syncrude System (formerly referred to as the AOSPL System)

The Syncrude System is comprised of a mainline and related facilities and has a single receipt point, being Syncrude Canada Ltd.'s production facility north of Fort McMurray, Alberta. The Syncrude System is the sole transporter for the Syncrude Project.

Revenue on the Syncrude System is not dependent on throughput. Revenue contribution from this system was $57.1 million in 2007 an 8% decrease from $62.1 million in 2006. This revenue decrease is reflective of the lower operating costs in 2007 that Pembina flowed through to the shippers. Actual throughput volume on the Syncrude System averaged 310,800 bbls/d in 2007, an 18% increase from 263,500 bbls/d in 2006. The Syncrude System contributed 15% of total revenue and 41% of Pembina's total average throughput in 2007 compared to 18.5% of total revenue and 37% of Pembina's total average throughput in 2006.

Returns generated by the Syncrude System are governed by the terms of a long-term agreement with the Syncrude owners. Expiry of the agreement is currently set at December 2035, commensurate with the current expiry of Syncrude's licenses, and the agreement is subject to extension. Pembina's rate of return on the Syncrude System is independent of throughput volume, as Pembina earns a rate of return on and of its depreciated capital investment along with full operating cost recovery.

Cheecham Lateral

The construction of the Cheecham Lateral was completed in the fourth quarter of 2006 and it became operational during the second quarter of 2007. See "General Development of the Fund – Developments in 2007 - Oil Sands Infrastructure – Cheecham Lateral". This 56 kilometre 16-inch pipeline has a capacity of 136,000 bbls/d and delivers SCO from the Syncrude Project to other oil sands production facilities for use as diluent. The Cheecham Lateral is fully contracted to shippers and contributed $4.7 million in revenue during 2007.

Horizon Pipeline

In November 2006, Pembina commenced construction of the Horizon Pipeline, which consists of twinning Pembina's existing Syncrude System mainline to provide for two physically and commercially separate and distinct pipeline systems south of the Syncrude terminal and the construction of a new pipeline from the Syncrude terminal to the Horizon Project. The first phase of construction, which consisted of the twinning of Pembina's Syncrude System with the installation of approximately 100 kilometres of 24-inch and 30-inch diameter pipeline, commenced in November 2006 and is complete. In 2007, Pembina began work on the second and third phases of construction, which entail the installation of 50 kilometres of 24-inch and 16-inch pipeline in the Edmonton area (including a North Saskatchewan River Crossing) and the installation of 73 kilometres of 20-inch pipeline connecting the Horizon Project to the Syncrude System terminal and crossing of the Athabasca River. These pipeline segments are now virtually complete. Pembina is currently targeting completion of pumpstation construction for July, 2008. Pembina estimates the total cost of the Horizon Pipeline to be approximately $400 million. The increase from the previous estimate of $350 million is due primarily to cost escalation and changes to the scope of the project. Under the terms of the contract for the construction of the Horizon Pipeline, Pembina does not expect the increased costs to have any direct impact on Pembina. Canadian Natural will have exclusive use of one of the two physically and commercially separate pipelines and Syncrude, the shipper on the existing Syncrude Pipeline, will have exclusive use of the other pipeline. See "General Development of the Fund – Developments in 2007 - Oil Sands Infrastructure – Horizon Pipeline" and "Risk Factors – Risks Inherent in Pembina's Business – Completion of the Horizon Pipeline".

Midstream Business

Overview

Pembina's midstream business is designed to further realize the inherent value of its conventional pipelines. This represents a natural extension of Pembina's conventional business and Pembina anticipates the trend toward vertically integrating its services for producers to continue in 2008. In 2007, the midstream business unit contributed $79.0 million in revenue, representing 20.3% of Pembina's total revenue for the year, compared to $50.7 million or 15.1% of Pembina's total revenue in 2006. Total net operating income generated by the midstream business in 2007 was $70.3 million, up $25.5 million from 2006.

Ethylene Storage

Pembina owns an indirect interest in the Storage Facility through ownership of a 49.9% interest in the Storage LP and 50% of the shares in the Storage GP, which holds a 0.2% interest in the Storage LP. Dow Canada, directly and indirectly owns the other 50% interest in the Storage LP, including the remaining 50% of the shares of the Storage GP, and operates the Storage Facility. The Storage LP owns 100% of the underground ethylene storage facility and related lands and equipment that comprise the Storage Facility.

The Storage Facility, located near Edmonton, Alberta, is made up of underground caverns used to store ethylene and a related central operating unit consisting of pumps, dehydrators and brine pond. The Storage Facility is the only large-scale ethylene storage facility in Alberta and is an integral component of the Alberta petrochemical infrastructure. The total storage capacity of the Storage Facility is approximately 213 kilotonnes (234,850 short tons) of ethylene.

Dow Canada and NOVA Chemicals are the Storage Facility's principal customers (collectively, the "**Customers**"). The Customers are party to the Storage Agreement and will be automatically renewed as to each Customer for successive periods of one year unless either PPC or the Customers gives the other five year's notice of non-renewal. If the Storage Agreement terminates prior to the twenty year anniversary date, the Customers are required to pay the Storage LP a make-whole payment equal to the unrecovered balance of capital expenditures made by the Storage LP prior to the termination plus the present value of the balance of the monthly base fixed fees for the remainder of the term of the Storage Agreement, discounted at a prescribed equity rate of return.

Dow Canada operates the Storage Facility pursuant to an operating agreement. Under a separate ethylene delivery system services agreement which also has the same term and effective date as the Storage Agreement, NOVA Chemicals has agreed to inject and withdraw ethylene by means of its pipeline facilities into and out of the Storage Facility for the Storage LP's customers.

Along with stable, long term cash flow, the Storage Facility provides diversification of Pembina's business into the petrochemical sector without the corresponding commodity price exposure.

Midstream and Marketing

In 2007, Pembina further expanded the scope of the midstream and marketing business with the commencement of commercial terminalling, storage and hub service activities, including marketing, on the Swan Hills System and Drayton Valley System. In 2007, Pembina realized the benefits of a second consecutive full year of midstream revenue on the Swan Hills System and the Cremona System and a first full year of midstream services on the Drayton Valley System. Effective January 1, 2008, Pembina transferred the Merchant Assets to Pembina Midstream Limited Partnership in connection with an internal reorganization of the Fund and its subsidiaries. This wholly owned subsidiary provides segregation of Pembina's midstream business from its other operations and Pembina believes the segregation better positions Pembina for further midstream growth opportunities.

For additional information on Pembina's midstream business, see "General Development of the Fund – Developments in 2007 – Midstream Business".

Information and Communication Systems

Pembina employs SCADA technology on all of its pipeline systems. The SCADA system allows for continuous electronic monitoring and control of the pipeline systems from dedicated computer consoles located in Pembina's Edmonton control centre. Operators monitor the computer consoles 24 hours per day, 365 days per year. The SCADA system and associated leak detection software continually monitor pipeline flow and operating conditions. Line balance calculations are made automatically and system alarms are triggered when imbalances are detected or measured pressures do not match those projected by software models.

During 2007, Pembina continued its long-term initiative to standardize and upgrade the SCADA systems and leak detection platforms used to remotely monitor and control the various pipelines. Pembina also continued with development and testing of the remotely located back-up control centre. This back-up facility now has the capacity to ensure business continuity for Pembina's operational control systems in the event of disruption at the primary control facility.

Pipeline Integrity Management

Pembina employs a comprehensive pipeline integrity management program ("**IMP**") dedicating a significant portion of its annual operating budget directly to pipeline integrity management activities. Pembina's IMP includes the policies, systems, processes, analysis and documentation designed to ensure proactive and transparent management of its pipeline systems and compliance with applicable standards and regulations.

Pembina's IMP is designed to achieve enhanced safety through the entire pipeline lifecycle. This begins with quality specifications/standards during pipe manufacturing, selection and application of high quality coatings to protect the buried pipe, route selection to avoid geologically unstable or high consequence areas, and the use of cathodic protection systems to electrically protect the pipe from external corrosion.

Integrity management activities extend into pipeline operations with programs including right-of-way patrols and public awareness to reduce the likelihood of third party damage, system-specific hazard evaluations and risk assessments, geotechnical programs to manage slope instability and river crossings, training and qualification programs for staff and contractors, enhanced emergency response procedures, and the use of specific chemicals to reduce the likelihood of internal corrosion from impurities and bacteria in the oil.

The cornerstone of Pembina's pipeline integrity program is the use of in-line inspection ("**ILI**") technology to measure and record both the distribution and severity of defects in the pipe. Through proactive use of these sophisticated electronic tools, defects with the potential to compromise pipeline fitness-for-service are identified and repaired. Projected defect growth rates and/or historical operating knowledge are used to plan re-inspection intervals. Pembina's re-inspection frequency is typically three to seven years with intervals selected so that remaining defects are re-assessed and repaired before they have a material effect on pipe integrity.

Pembina has employed in-line inspection since the early 1970s, progressing to newer high-resolution ILI technology in the late 1990s. In 2007, 62 lines were inspected, representing approximately 20% of Pembina's total system length. Most maintenance activities associated with these inspections were completed in 2007, with some non-critical projects carrying over into 2008. Approximately 37 lines are scheduled for inspection in 2008.

For those line segments with higher susceptibility to crack failures, Pembina also employs specialized ultrasonic ILI crack detection technology. Pembina has completed crack detection inspections on the Western System (Taylor to Kamloops), portions of the Peace System (LaGlace to Fox Creek), the 12-inch and 20-inch lines from Fox Creek to Edmonton, the 16-inch crude line from Judy Creek to Edmonton, and on the 22-inch Syncrude System mainline. In 2008, a re-run of the 12-inch Fox Creek to Edmonton run will be completed and the 16-inch NGL line from Judy Creek to Namao will be inspected. Data from these specialized tools is used in conjunction with pipeline pressure data and is analyzed by Pembina and third-party technical experts to design appropriate mitigation, repair and re-assessment programs.

In addition to these integrity management programs for pipeline assets, Pembina also has regularly scheduled inspection and repair programs for the above and below ground storage tanks.

Environmental Matters

Operation of Pembina's pipelines and other assets is subject to environmental controls in the form of approvals and compliance with applicable federal, provincial, and local laws and regulations. Such laws and regulations govern, among other things, operating and maintenance standards, emissions and waste discharge and disposal. Management believes that company facilities and operations meet or exceed those requirements.

To confirm regulatory compliance and conformance with our own environmental standards, Pembina has in place a planned environmental audit program. As part of the program, regularly scheduled third-party environmental audits are conducted on a rotating basis at various facilities each year. The program is designed such that each major facility is audited at least once every five years.

Pipeline Environmental Incidents

Pembina's focus on integrity management and safe pipeline operations continues to result in low incident frequency and minimal environmental impact. In 2007, Pembina incurred a single pipeline leak of less than two cubic meters on a pipeline segment near Gordondale, Alberta. The failed pipeline was constructed in 1997 and the leak was attributed to a manufacturing defect in the fusion line of the pipe weld. Such defects are typically discovered during factory quality assurance monitoring and no further failures of this nature are anticipated by Pembina.

Beyond this leak, Pembina recorded only minor environmental incidents at stations and facilities. In 2007, Pembina incurred approximately $3 million in expenditures related to remediation and reclamation of historical hydrocarbon impacted soils. The majority of this expenditure was associated with delineation and remediation of a historical spill site related to a 1971 release near the community of Sundre, Alberta. This release occurred on a Federated Pipe Lines Ltd. asset prior to its purchase by Pembina in 2000.

During residential housing development activities in late 2007, a 1972 release in the Town of Morinville, Alberta was re-discovered. This release also occurred on a Federated Pipe Lines Ltd. asset prior to its purchase by Pembina in 2000. Although the oil from the spill was originally cleaned up to the standards of the day, residual hydrocarbons remain in the soils impacting parkland, land proposed for residential development, and an elementary school that was constructed on the spill site in 1980. Extensive delineation and site assessment activities, including indoor air quality monitoring at the school, confirm that there are no known health risks to people from the residual hydrocarbon-impacted soils. Pembina has worked collaboratively and transparently with public and private stakeholders throughout the project.

The Westward Ho spill site near Sundre, Alberta is a long-term remediation project addressing hydrocarbon-impacted soils and groundwater from the 1971 release. In 2002, the spill site and some additional adjacent lands were purchased by Pembina. Since that time, Pembina has engaged in an extensive groundwater monitoring program. In 2007, a 10-year liability reduction program was initiated with the removal of approximately 10,000 tonnes of hydrocarbon impacted soil. This program will continue over the next decade and is being completed in consultation with Alberta Environment.

In addition to the $3 million expenditure on historical spill sites in 2007 (including the Westward Ho spill site), Pembina spent approximately $280,000 on yearly environmental programs, monitoring, and audits and approximately $1.5 million of expenditures on the Morinville spill site. Pembina believes annual environmental expenditures in the $3 million to $5 million range will adequately address reclamation and environmental issues, including in respect of the Westward Ho spill site. In 2008, Pembina expects to spend up to an additional $2 million of expenditures on the Morinville spill site. At this time, Pembina does not expect to incur any substantial additional expenditures on the Morinville site past 2008.

In addition to the environmental expenses associated with pipeline operations, Pembina also invests money and resources into environmental assessment, planning, and post construction monitoring associated with Capital projects.

Asset Retirement Obligations

The Fund recognizes the fair value of an asset retirement obligation in the period in which it is incurred, when an estimate can reasonably be made and current industry practice or regulation requires removal upon the retirement of the asset. The fair value is recorded as a long-term liability, with a corresponding increase in the carrying amount of the property, plant and equipment. The passage of time will increase the liability as accretion is charged to period earnings. Revisions to timing of payments or cost estimates also result in a change to the asset retirement obligation. Actual costs incurred upon settlement are charged against the asset retirement obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement and the recorded liability is recognized as a gain or loss in the Fund's earnings in the period in which the settlement occurs.

No amount has been recorded relating to the removal of underground pipelines or the retirement of the Storage Facility, as the asset retirement obligations relating to these assets cannot be reasonably estimated due to the indeterminate timing and scope of the asset retirements. As the timing and scope of the retirement become determinable for these assets, the fair value of the liability and the cost of retirement will be recorded.

Major Customers

There are approximately 50 shippers (including all major shippers of petroleum products in western Canada) on the pipeline systems owned and operated by Pembina. The major delivery points include the Enbridge Pipeline system, the Kinder Morgan Pipeline system, the refineries in the Edmonton area as well as the fractionators near Fort Saskatchewan, Alberta. Deliveries are also made to Husky Energy Inc.'s refinery in Prince George, British Columbia and to the pipeline system owned by Kinder Morgan Canada Inc. at Kamloops, British Columbia.

Pembina generally enjoys amicable relationships with its shippers and, in most cases, is able to negotiate acceptable terms in relation to the various shipping arrangements.

Competitive Environment

Competition in the oil and natural gas feeder pipeline industry in western Canada arises in two forms. Unconnected volumes of product are typically trucked to the most competitive truck unloading facility, and there is direct competition from other pipelines serving the same area. An example of this is the Alliance Pipeline that is a natural gas gathering and pipeline system carrying liquids-rich natural gas from northeastern British Columbia through northwestern Alberta to Chicago, Illinois. This pipeline competes for the volumes of ethane plus and other NGLs carried on the Peace System and/or the Northern System.

Pembina believes that it is well positioned to compete with other alternatives for transportation. In addition, Pembina has been active in attracting incremental volumes to its pipelines and entering into long term contracts with shippers and producers.

Industry Regulation and Tariffs

The feeder pipeline industry in Alberta normally operates in an environment of unregulated tariffs. Once a permit to construct the pipeline is issued by the ERCB, subject to the licensing of operational matters or a common carrier declaration, the pipeline is free to establish tariffs in a competitive environment. Tariffs are established under contracts of varying terms and conditions and are also posted by location. Posted tariffs generally can be adjusted to respond to changing volumes, costs and market circumstances. Contracted tariffs can also be adjusted, where permitted by the terms of the contract, for such things as changes in power costs, municipal taxes, environmental and safety costs. Pipeline customers have recourse to the ERCB with respect to pipeline access and discrimination among customers, if they can establish that the pipeline should be declared to be a common carrier. Once declared a common carrier, the ERCB has the authority to set rates for the pipeline. No Pembina pipeline in Alberta has been

declared to be a common carrier and had its contract terms or tariff rates set by regulatory process. Tariffs for all of Pembina's Alberta pipeline systems are generally established to recover all costs and earn a reasonable rate of return on the investment in its pipelines. On the Syncrude System, those tariffs are further subject to a long term contract that expires in 2035. This contract provides for payment of the rates regardless of use of the system. The shippers on the Syncrude System have agreed not to apply to the Alberta regulator for tolls during the term of the agreement.

In British Columbia the tariffs on the NEBC System and the Western System are regulated by the BCUC. The BCUC approves tariffs for common carriers and regulates others on a complaints basis. Following the expiry on June 30, 2007 of a five year toll settlement between the Western System and its customers, approved by the BCUC, increased tolls on the Western System were accepted by the BCUC on an interim basis beginning July 1, 2007. Pembina is working towards reaching toll settlement agreements with all of the shippers on the Western System, thus avoiding a toll hearing with the BCUC. A toll settlement agreement was signed on March 20, 2008 between Pembina and one of the largest shippers on the system, which agreement is subject to the approval of the BCUC. Pembina is currently working towards agreements with the other affected shippers. If settlement is not reached with all of the shippers, Pembina expects to have a toll hearing before the BCUC in the second quarter of 2008 with those shippers who have not settled. Pembina believes the tolls ultimately set or agreed upon will provide Pembina a reasonable return on its capital and reimbursement of its operating expenses. See " – Overview – Conventional Pipelines – B.C. Pipelines" above.

Portions of the Peace System, the Northern System and the NEBC System are Group II NEB regulated pipelines. For these pipeline systems the NEB only reviews the tariffs if a customer files a formal complaint concerning the tariffs. There have been no complaints to the NEB on tariffs on these systems for so long as Pembina has owned and operated them.

Major Contracts

Transportation and Storage

There are a number of service contracts on Pembina's pipeline systems. On the Syncrude System, Pembina has a contract to ship Syncrude Project production until 2035 and is currently the sole shipper of SCO produced from the oil sands operations of the Syncrude Project. This arrangement provides for a tariff that recovers all operating costs and provides for a return on current and future invested capital and is not dependent upon throughputs. This contract automatically extends beyond 2035 if Syncrude's operating permit is extended. Pembina also has a contract in place for the Cheecham Lateral. This contract generates fixed returns under an extendible 25 year agreement and provides for full flow-through of operating expenses. In 2001 Pembina negotiated a contract on the Western System for throughputs on that system. This contract expired on June 30, 2007 and since that time increased tolls on the Western System were accepted by the BCUC on an interim basis. See " – Industry Regulation and Tariffs" and " – Overview – Conventional Pipelines – B.C. Pipelines" above. Pembina also has contracts in place for the Storage Facility described above under "Description of Pembina's Business and Operations – Midstream Business". The proposed Horizon Pipeline is also fully contracted over a 25 year term. See "General Development of the Fund – Developments in 2007 – Oil Sands Infrastructure – Horizon Pipeline". See also "Risk Factors – Risks Inherent in Pembina's Business – Shipper Contracts".

Power

Power is a significant component of the cost of operations, constituting approximately 18% of the total operating expenses for PPC in 2007. In Alberta, as part of Pembina's risk management program, and in order to minimize exposure to power cost fluctuations and to smooth Pembina's operating results, Pembina has hedged 100% of its expected Alberta Pipelines power requirement through to 2010. Power costs are not hedged for the B.C. Pipelines as costs and returns, including the cost of power, are regulated by the government in that province. As requested by the Syncrude participants, the only shippers on the Syncrude System, Pembina also does not hedge power costs on that system and the power costs are flowed through to such shippers.

Pipeline Rights-of-Way and Land Tenure

Pembina's real property interests fall into two basic categories of ownership: (i) a number of locations, including many pumping stations and terminal and storage facilities, which are owned in fee simple; and (ii) the majority of locations which are covered by leases, easements, rights of way, permits or licences from landowners or governmental authorities permitting the use of such land for the construction and operation of a pipeline. Pembina believes that the operator of each of its pipeline assets has sufficient title to its property interests to permit the operation of such assets.

Indemnification and Insurance

Pembina maintains insurance to provide coverage in relation to the ownership and operation of its pipeline assets, as well as on the Storage Facility and its other midstream assets. Insurance coverage for Pembina's pipeline assets currently includes: (i) property insurance coverage, providing coverage on the property and equipment that is above-ground or that facilitates river crossings, with recovery based upon replacement costs, and, where necessary, business interruption coverage for loss of income arising from specific property damage; and (ii) comprehensive general liability coverage, providing coverage in actions by third parties. The latter coverage includes Pembina's sudden and accidental pollution coverage, which specifically insures against certain claims for damage from pipeline leaks or spills.

Pembina believes that it has procured such insurance coverage as would be maintained by a prudent owner and operator of the type of assets owned and operated by Pembina. This insurance coverage is subject to limits and exclusions or limitations on coverage that Pembina considers to be reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that insurance coverage will be adequate in any particular situation.

Employees

As at December 31, 2007, Pembina employed 357 personnel in its pipeline operations, of which 248 were engaged in the performance of field operations and superintendence activities, and 109 were engaged in the performance of facilities engineering, systems, management, finance, administration, human resources, information services, and safety and environmental service activities. Most employees of Pembina are involved in performance of duties in all three of Pembina's business segments. All employees are non-unionized. Pembina's workforce is relatively stable with limited turnover and employees are financially encouraged to remain in Pembina's employment through options to purchase Trust Units, long term incentive programs and pension plans, all which vest over time.

WESTERN CANADIAN OIL AND GAS AND PIPELINE INDUSTRY

Western Canada Oil and Gas Industry

Western Canada is the major source of conventional crude oil, SCO, natural gas, bitumen and related products (including NGLs and condensate) in Canada. Domestic crude oil and natural gas production in the West comes primarily from Alberta with lesser amounts from British Columbia, Saskatchewan, Manitoba and the Northwest Territories. SCO comes from the oil sands developments near Fort McMurray, Alberta. Efficient, low cost, and safe transportation by pipeline from producing fields to refineries, processing plants and domestic and export markets is essential to the Canadian oil and gas industry.

Supply and Production of Canadian Oil and Gas

Western Canada's hydrocarbon resource base is large and diverse, comprised of conventional light oil, heavy oil, bitumen in the oil sands of Alberta, natural gas and NGLs. NGLs are extracted from raw natural gas at field plants so that the residual gas will meet specifications for transportation in natural gas pipelines. Almost 90% of NGLs are extracted during the processing of natural gas while the remainder is extracted from crude oil at refineries. Typically, NGLs are extracted as a mix but if an additional investment is made in "fractionation" facilities, the individual components can be separated. Most field plants do not extract ethane but leave it in the natural gas. In

Alberta, ethane which has been left in the natural gas may be extracted at a straddle plant located on a major natural gas transmission pipeline and then sold as feedstock to the petrochemical industry.

Condensate is produced naturally at the well head when natural gas is brought to the surface at a gas well. Typically the condensate is separated from the natural gas at the field gas plant. The condensate is then either trucked to a connection point on a pipeline capable of transporting condensate, or the natural gas plant may be connected directly to a feeder pipeline by a small pipeline called a gathering system.

Crude oil, SCO and NGLs produced in Canada are transported to market through extensive gathering and transportation systems which can be classified as feeder pipeline systems and export pipeline systems.

Demand for Canadian Oil and Gas Products

Demand for Canadian crude oil, condensate and NGLs production is determined by the degree to which such products can compete on the basis of price, quality and availability in individual market areas in Canada and the northern and eastern United States.

Almost all of the condensate produced in Alberta is used locally as a diluent for heavy oil. Western Canada produces more crude oil and NGLs than it requires for domestic use and surplus supplies are transported by pipeline to markets in other parts of Canada as well as the United States.

While Canadian crude oil, condensate and NGLs producers will face continuing competition in the U.S. market from U.S. Gulf Coast and Latin American producers, factors, including proximity to U.S. markets and the reliability of supply through the expanded Canadian domestic and export transportation system, favour Canadian producers.

Feeder Pipeline Systems

Feeder pipeline systems gather petroleum products from producing fields and facilities for transport to regional centres for storage, fractionation, refining and connection to larger pipelines. From these centres, petroleum products are further transported by export pipeline systems either to domestic markets in western or eastern Canada or to markets in the northern United States for end-use, or used as feedstock in refineries or the petrochemical industry. The major operational centre for the Canadian oil and natural gas industry is the Edmonton – Fort Saskatchewan area of Alberta, which is both the largest crude oil refining area in western Canada and a major fractionation area for NGLs. In addition, the Edmonton - Fort Saskatchewan area is the hub of the Alberta feeder pipeline network and the starting point of the large Canadian export pipelines.

All of Pembina's pipelines are feeder pipeline systems that collectively transport approximately 757,900 bbls/d of petroleum products. These pipelines transport product from established production fields in their respective service areas, and the Syncrude Project, into the refining and export pipeline centres at Edmonton and Fort Saskatchewan. Upon delivery, the products can be used by local refineries and fractionators or may be transported to markets in western and eastern Canada and the northern U.S. through export pipelines.

Export Liquids Pipeline Systems

The export liquids pipelines originating in the Edmonton and Fort Saskatchewan area are the Kinder Morgan Pipeline system, the Enbridge Pipeline system and the Cochin Pipeline. Crude oil and refined products delivered to domestic and export markets on the west coast are transported through the Kinder Morgan Pipeline system. Crude oil and refined products delivered to eastern Canada and the northern United States are transported through the Enbridge Pipeline system. NGLs delivered to eastern Canadian and export markets are transported through the Enbridge Pipeline system and the Cochin Pipeline.

In recent years, there has been an increase in the export pipeline capacity available to transport crude oil and NGLs from western Canada to markets in eastern Canada and eastern and midwestern United States. Pembina anticipates that this additional export capacity, together with continued high levels of exploration activity within its service areas, will maintain the future utilization of its existing feeder pipeline systems.

DESCRIPTION OF THE FUND AND THE TRUST UNITS

Declaration of Trust

The Fund is an unincorporated, open ended trust established pursuant to the Declaration of Trust and governed by the laws of Alberta. The following is a summary of certain provisions of the Declaration of Trust. For a complete description of the Trust Units and the Declaration of Trust, reference should be made to the Declaration of Trust, a copy of which is available to Unitholders from the Fund and was filed as a "Material document" on March 29, 2005 on the Fund's SEDAR profile at www.sedar.com. See "Material Contracts". The following summary reflects the structure and governance of the Fund following the Management Internalization and the assignment by the Manager to PPC of all of the Manager's administrative duties with respect to the Fund in connection therewith.

The Trustee

The Declaration of Trust provides that, subject to the terms and conditions of the Declaration of Trust, the Trustee may, in respect of the trust assets of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The Trustee is responsible for, among other things: (i) holding legal title to the Fund's assets; (ii) maintaining records and providing reports to Unitholders; (iii) supervising the activities and managing the investments and affairs of the Fund; (iv) effecting payments of cash distributions from the Fund to Unitholders; and (v) acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of PPC.

The Trustee was appointed for an initial term of ten years, expiring in 2009. The Trustee may resign by giving not less than 60 days' written notice to the Fund and PPC and may be removed by notice in writing by PPC in the event the Trustee fails to satisfy certain criteria described in the Declaration of Trust. The removal of a Trustee shall not become effective until approved by a Extraordinary Resolution at a meeting of the Unitholders called for that purpose and a successor Trustee is appointed by a majority of Unitholders at such meeting. If no successor Trustee is appointed by Unitholders, the Trustee, PPC or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor Trustee.

The Declaration of Trust provides that the Trustee shall act honestly and in good faith with a view to the best interests of the Fund and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustee, and each of its directors, officers, employees and agents, shall be entitled to indemnification from the Fund in respect of the performance of its duties under the Declaration of Trust in the absence of gross negligence, wilful default or fraud on the part of the Trustee or its directors, officers, employees and agents. The Declaration of Trust states that the duties and standard of care of the Trustee provided in the Declaration of Trust are intended to be similar to, and not greater than, those imposed on a director of a corporation governed by the ABCA.

Delegation by the Trustee to PPC

Except as prohibited by law, the Trustee may delegate any of its powers and duties to other persons. Under the Declaration Trust, the Trustee has delegated the supervision of the day-to-day business and affairs of the Fund to the PPC Directors. As a result of the Management Internalization and the related delegation of the Administration Agreement, PPC has also been delegated, subject to the supervision of the Trustee, the administration of the general and administrative affairs of the Fund, and in particular, among other things, the responsibility for all matters relating to the issuance of Trust Units or other securities of the Fund, ensuring the Fund complies with its continuous disclosure obligations, calling and preparing materials for Unitholder meetings and recommending the amounts of distributions to Unitholders. The Trustee has no liability for any actions of PPC with respect to the matters delegated to, and in relying upon PPC, the Trustee is deemed to have satisfied its standard of care set forth above. In exercising its powers and discharging its duties, PPC is to exercise the degree of care, diligence and skill that a reasonably prudent administrator would exercise in comparable circumstances. See "Directors and Officers".

Trust Units and Other Securities of the Fund

An unlimited number of Trust Units may be issued pursuant to the Declaration of Trust. Each Trust Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund whether of net income, net realized capital gains or other amounts, and in any net assets of the Fund in the event of termination or winding-up of the Fund. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority. Trust Units are not subject to future calls or assessments except that future offerings of Trust Units may be issuable for consideration payable in instalments in which case the Fund may take security over any such Trust Units. Each Trust Unit entitles the holder thereof to one vote an a poll vote for each whole Trust Unit held at all meetings of Unitholders. Except as set out under " – Redemption Right" below, the Trust Units have no conversion, retraction, redemption or pre-emptive rights.

The Declaration of Trust provides that Trust Units, and rights, warrants or other securities to purchase, convert into or exchange into Trust Units, may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustee determines. The Trustee has delegated responsibility for these matters to PPC. Trust Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis. The Declaration of Trust also provides that immediately after any *pro rata* distribution of Trust Units to Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Trust Units as the Unitholder held before the non-cash distribution.

See "Risk Factors – Risks Relating to the Fund's Structure and Securities".

Investments of the Fund

The Fund is restricted to investing in any securities or property comprising or relating to pipeline or other energy facilities and the operations of businesses relating thereto, or taking any other action or making any investment which would not prevent the Trust Units from qualifying as units of a "unit trust" or a "mutual fund trust" under the Tax Act or would not result in the Trust Units being disqualified for investments under Exempt Plans or being "foreign property" under the Tax Act.

Cash Distributions

The amount of cash distributions to the Unitholders annually shall be equal to the interest and repayments of principal on the PPC Notes accruing to the Fund and dividends and repayments of capital on the PPC Shares or other securities received by the Fund in the year, less administrative expenses of the Fund and amounts which may be paid by the Fund in connection with any cash redemptions of Trust Units. Any income of the Fund which is applied to any cash redemptions of Trust Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Trust Units. Such additional Trust Units will be issued pursuant to exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund intends to make monthly cash distributions to Unitholders based upon anticipated interest income of the Fund on the PPC Notes, less estimated amounts required for the payment of expenses and assuming there are no cash redemptions of Trust Units. The Fund will also include in its monthly distributions cash dividends, repayments of principal on the PPC Notes and repayments of capital on the PPC Shares, if any, received from PPC. Each Unitholder's share of the cash distributions is his or her proportionate share based on the number of Trust Units held by such Unitholders as compared to the total outstanding Trust Units. Monthly distributions are due and payable to Unitholders of record on each Record Date (currently the last day of each month) and are to be paid on or about the 15th day of the following month without interest or penalty.

Redemption Right

Trust Units are redeemable at any time at the option of the holders thereof. As the Trust Units are issued in "book entry only" form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice

from his or her investment dealer who is required to deliver the completed redemption notice form to the Fund. Upon receipt of the redemption request by the Fund, all rights of the holder with respect to the Trust Units tendered for redemption shall cease and the holder thereof shall only be entitled to receive a price per Trust Unit ("**Cash Redemption Price**") equal to the lesser of: (i) 95% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Trust Units were surrendered for redemption (the "**Redemption Dat**e"); and (ii) the "closing market price" on the principal market on which the Trust Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" will be an amount equal to the weighted average trading price of the Trust Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market cannot provide a weighted average trading price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the "market price" shall be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the ten trading days, the "market price" shall be the simple average of the following prices established for each of the ten trading days: (i) the average of the bid and ask prices of the Trust Units for each day on which there was no trading; (ii) the weighted average trading price of the Trust Units for each day that there was trading if the exchange or market provides a weighted average trading price; and (iii) the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The "closing market price" shall be: (i) an amount equal to the closing price of the Trust Units if there was a trade on the date; (ii) an amount equal to the average of the highest and lowest prices of Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; or (iii) the average of the last bid and last ask prices of the Trust Units if there was no trading on the date.

The aggregate Cash Redemption Price payable by the Fund in respect of any Trust Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month, provided that the entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the limitations that: (i) the total amount payable by the Fund in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month shall not exceed $250,000 (provided that such limitation may be waived at the discretion of PPC); (ii) at the time such Trust Units are tendered for redemption, the outstanding Trust Units shall be listed for trading on the TSX or traded or quoted on any other stock exchange or market which PPC considers, in its sole discretion, provides representative fair market value prices for the Trust Units; and (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten day trading period commencing immediately after the Redemption Date. See "Risk Factors – Risks Relating to the Fund's Structure and Securities – Market Value of Trust Units and other Fund Securities".

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the redemption price for such Trust Units shall be the fair market value thereof as determined by PPC taking into account any taxes payable by the Fund arising from such redemption. The redemption price shall, subject to any applicable regulatory approvals, be paid and satisfied by way of distribution *in specie* of a pro rata number of PPC Shares, PPC Notes (in integral multiples of $100) and other securities in additional businesses, if any, acquired by the Fund and from time to time outstanding. No fractional PPC Shares, PPC Notes or securities of other businesses, if any, will be distributed and, where the number of PPC Shares, PPC Notes or securities of other businesses, if any, to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. The Fund shall be entitled to all interest paid or accrued and unpaid on the PPC Notes or other debt securities held by the Fund, if any, to all dividends declared and paid or declared payable on the PPC Shares or other shares held by the Fund, if any, on or before the date of the distribution *in specie*.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Trust Units. The PPC Shares and PPC Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop in such securities and such securities may be subject to resale restrictions under applicable securities laws. Such securities

will not be qualified investments for trusts governed by an Exempt Plan. See "Risk Factors – Risks Relating to the Fund's Structure and Securities – Investment Eligibility and Tax Issues".

Meetings of Unitholders

The Declaration of Trust provides that annual meetings of Unitholders must be held on or before June 30 of each year, at which Unitholders shall appoint the PPC Directors and the auditors of the Fund and PPC. The Declaration of Trust provides that Unitholders may pass resolutions that bind the Trustee or the Fund with respect to: (i) the appointment or removal of a Trustee; (ii) the appointment or removal of auditors of the Fund; (iii) the election of the PPC Directors; (iv) the approval of amendments to the Declaration of Trust (except as described under " - Amendments to the Declaration of Trust" below); (v) the appointment of an inspector to investigate the performance of the Trustee or PPC regarding the Fund; (vi) the sale of all or substantially all of the assets of the Fund (other than as part of an internal reorganization); (vii) the termination of the Fund; (viii) amendments to or renewals of the Administration Agreement; and (ix) matters which require securityholder approval pursuant to securities laws or stock exchange rules applicable to the Fund. The resolutions in items (iv), (vi) and (vii) must be passed by Extraordinary Resolution while the other items require the approval of a majority of votes cast at a meeting of Unitholders. Additionally, the matters described below under " – Exercise of Voting Rights Attached to PPC Shares" below must be passed by an Extraordinary Resolution of Unitholders.

A special meeting of Unitholders may be called at any time by the Trustee and must be convened if requisitioned by the holders of not less than 5% of the Trust Units then outstanding (not including Trust Units beneficially owned by PPC) by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at such meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two or more individuals present in person either holding personally or representing by proxy in the aggregate at least 10% of the outstanding Trust Units shall constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Exercise of Voting Rights Attached to PPC Shares

The Declaration of Trust provides that the Trustee shall not authorize, either by agreement or by voting its PPC Shares:

(i) any amendment to the articles of PPC to add or change any restriction on the business of PPC or change the authorized share capital or amend the rights, privileges, restrictions and conditions attaching to any class of shares of PPC;

(ii) any sale, lease or exchange of all or substantially all of the property and undertaking of PPC except in the ordinary course of business of PPC or as part of an internal reorganization of that corporation and any one or more of its wholly-owned subsidiaries;

(iii) any matter which, under the ABCA or such other legislation as may at the relevant time govern PPC, requires the sanction of a special resolution of the shareholders of PPC;

(iv) any amalgamation or other merger of PPC with any other corporation, except one or more direct or indirect wholly-owned subsidiaries of PPC; or

(v) any amendment to the Declaration of Trust (other than as described below under " – Amendments to Declaration of Trust") or the Governance Agreement;

without the authorization of the Unitholders by Extraordinary Resolution at a meeting of Unitholders called for that purpose.

Limitation on Non-Resident Ownership

Generally speaking, in order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada ("**non-residents**") within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents be the beneficial owners of a majority of the Trust Units. If the Fund's transfer agent or the Trustee becomes aware that the beneficial owners of 49% of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Fund's transfer agent or Trustee may make a public announcement thereof and the Fund's transfer agent shall not accept a subscription for Trust Units from, or issue or register a transfer of Trust Units to, a person unless the person provides a declaration satisfactory to the Trustee that the beneficial owner is not a non-resident. If, notwithstanding the foregoing, the Fund's transfer agent or the Trustee determines that a majority of the Trust Units are held by non-residents, the Fund's transfer agent may, or the Trustee may cause the Fund's transfer agent to, send a notice to non-resident Unitholders, chosen in inverse order to the order of acquisition or registration or in such other manner as the Fund's transfer agent or the Trustee may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof to a Canadian resident within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Fund's transfer agent with satisfactory evidence that the beneficial owners are not non-resident within such period, the Fund's transfer agent may on behalf of such Unitholders sell such Trust Units and, in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale, the affected holders shall cease to be holders of Trust Units and their rights shall be limited to receiving the net proceeds of such sale upon surrender of the certificates representing such Trust Units. Pursuant to the Administration Agreement, the Trustee has delegated the monitoring of the status of the Trust Units as eligible investments for Exempt Plans to PPC.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended from time to time by Extraordinary Resolution. The Trustee may, without the approval of the Unitholders, authorize certain amendments to the Declaration of Trust, including amendments:

(i) for the purpose of ensuring continuing compliance with the applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustee or the Fund;

(ii) which, in the opinion of the Trustee, provides additional protection for the Unitholders;

(iii) not inconsistent with the Declaration of Trust, including the correction or rectification of any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions that are, in the opinion of the Trustee, necessary or desirable and not materially prejudicial to the rights of Unitholders; or

(iv) which, in the opinion of the Trustee, are necessary or desirable in the interests of the Unitholders as a result of changes in taxation law.

Termination of the Fund

The Fund has been established for a term ending 21 years after the date of the death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on September 4, 1997. The Declaration of Trust requires the Trustee to commence to wind-up the affairs of the Fund not more than two years prior to the end of the term of the Fund. In addition, at any time prior to the expiry of the term of the Fund, the Unitholders may pass an Extraordinary Resolution to terminate the Fund at any meeting of Unitholders called for such purpose, following which the Trustee is obligated to commence to wind-up the affairs of the Fund.

Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the offer on the terms offered by the offeror.

Reporting to Unitholders

The Fund will furnish to the Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation. PPC has undertaken to provide the Fund with: (i) a report of any material change that occurs in its affairs in form and content that it would file with applicable regulatory authorities if it were a reporting issuer, and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws. Prior to each meeting of Unitholders, the Fund will provide the Unitholders with information similar to that required to be provided to shareholders of an ABCA company along with notice of such meeting.

Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan

The Fund has instituted a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "**Plan**"), which provides Unitholders of the Fund the opportunity to either receive a cash payment equal to 102% of the cash distribution otherwise payable by Pembina or accumulate additional Trust Units at a 5% discount to an average market price. Participants may also purchase additional Trust Units by investing additional sums within the limits and subject to the terms of this Plan. The Plan provides an efficient way for the Fund to issue additional equity to existing Unitholders. Pembina will determine, for each distribution payment date, the amount of new equity or premium cash payments, if any, that will be made available under the Plan on that date. As of June 30, 2007, Pembina has prorated the Plan to zero and, as such, the optional equity and premium cash payments have not been available to Unitholders in respect of cash distributions since that date. Pembina took this action as it currently prefers not to raise further equity investment. Pembina believes that it has sufficient bank facilities to fund current projects and may resume the Plan in the future should it desire to raise new equity. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes". For additional information, see "Investor Relations - DRIP" on the Fund's website at www.pembina.com.

Convertible Debentures

On December 4, 2001, the Fund issued $87.5 million of 7.50% convertible unsecured subordinated debentures which matured on June 30, 2007. Upon maturity of the 7.50% convertible debentures, the remaining balance of approximately $0.4 million was converted into Trust Units at $15.26 per Trust Unit.

On June 19, 2003, the Fund issued $220.0 million of 7.35% convertible unsecured subordinated debentures maturing on December 31, 2010. These debentures may be converted at the option of the holder at a conversion price of $12.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund. The Fund may, at its option after June 30, 2006, elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units. As at December 31, 2007, $49.8 million principal amount of these debentures were outstanding.

Payments of interest and, as required, repayment of principal on the Convertible Debentures rank in priority to the payment of cash distributions by the Fund to Unitholders. For additional information regarding the Convertible Debentures, see Note 8 to the Fund's audited consolidated financial statements for the year ended December 31, 2007.

Credit Ratings

Dominion Bond Rating Service Limited

The Fund has been assigned an STA-2 (low) stability rating from Dominion Bond Rating Service Limited ("**DBRS**") that DBRS reconfirmed in February, 2008. In February, 2008, DBRS also confirmed its ratings of "BBB high" on Pembina's senior secured debt and "BBB" on Pembina's senior unsecured debt.

The BBB rating is the fourth highest of DBRS' ten rating categories for long-term debt, which range from AAA to D. DBRS uses "high" and "low" designations on ratings from AA to C to indicate the relative standing of securities being rated within a particular rating category. The absence of a "high" or "low" designation indicates that a rating is in the "middle" of the category. The BBB rating indicates that, in DBRS's view, the rated securities are of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

DBRS's stability ratings consider seven main factors: operating and industry characteristics, asset quality, financial flexibility, diversification, size and market position, sponsorship/governance, and growth. Stability ratings provided an indication of both the stability and sustainability of distributions per unit of the Fund, in a scale ranging from STA-1 to STA-7, with STA-1 representing the highest rating possible, and STA-7 the lowest. Each rating category is refined into further subcategories of high, middle, and low, providing a total of 21 possible rating categories. Income funds rated at STA-2 are considered to have very good distributions per unit stability and sustainability. A fund rated STA-2 exhibits performance that is only slightly below the STA-1 category, typically shows above-average strength in areas of consideration, and possesses levels of distributable income per unit that are not likely to be significantly negatively affected by foreseeable events. Such funds are considered to be above average in many, if not most, areas of consideration.

Standard & Poor's

The Fund was assigned an SR-2 stability rating with a stable outlook and a moderately aggressive distribution profile assessment from Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**") on January 15, 2007. S&P confirmed its "BBB" long-term corporate credit rating on PPC and "BBB+" senior debt rating and "BBB" senior unsecured debt rating in January 2007, all with a stable outlook. S&P categorized the Convertible Debentures as debt for rating purposes.

The BBB is the fourth highest rating of S&P's ten rating categories for long-term debt which range from AAA to D. Issues of debt securities rated BBB are judged by S&P to exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

S&P's stability ratings indicate the prospective relative stability of distributable cash flow generation of the Fund on a scale running from SR-1 to SR-7, with SR-1 representing the highest possible rating, and SR-7 representing the lowest possible rating. S&P's stability ratings incorporates analyses of three aspects of the issuer: structure and governance; business risk profile; and financial risk profile, which includes distributable cash flow. Income funds rated at SR-2 are considered to have a very high level of distributable cash flow generation stability.

Stability ratings by S&P on Canadian income funds use a distribution profile assessment, which considers an entity's distribution policy in the context of cash flow dynamics, and comments on the ability of the organization to maintain a given level of distributions. The distribution profile assessment considers an entity's distribution policy in the context of cash flow dynamics, and comments on the ability of the organization to maintain a given level of distributions, expressed on a seven-step scale, ranging from very conservative to very aggressive. The distribution profile assessment takes into account, among other factors, how aggressive or conservative the entity's distribution policy is relative to the variability of its distributable cash flow generation.

The ratings on PPC reflect S&P's consolidated assessment of the credit profile of both PPC and the Fund. S&P views PPC and the Fund as co-dependent, and the credit risk profiles are further linked by the existence of material intercorporate transactions. The ratings on PPC, therefore, reflect the consolidated business and financial risk of the Fund as a whole.

These securities ratings are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

DESCRIPTION OF PPC AND OTHER OPERATING SUBSIDIARIES

Pembina Pipeline Corporation

Share Capital of PPC

The authorized capital of PPC consists of an unlimited number of common shares. The Fund owns all of the issued and outstanding common shares of PPC. Each common share entitles its holder to receive notice of and to attend all meetings of shareholders of PPC and to one vote at such meetings, subject to the Fund's right to vote 100% of the PPC Shares at any time it owns at least 25% of such shares. See "Directors and Officers –Governance Agreement". The holders of the common shares are, at the discretion of the PPC Directors and subject to applicable legal restrictions, entitled to receive any dividends declared by the PPC Directors on the shares.

PPC Notes Issued to the Fund

PPC has issued certain unsecured, subordinated PPC Notes to the Fund at various interest rates, with interest on each payable monthly on each Record Date. PPC may defer, for a period of up to 12 months, payment of interest on the PPC Notes to the extent that its earnings before interest, taxes, depreciation and amortization are inadequate to pay the interest on the PPC Notes. The PPC Notes mature in 2027.

On or about October 24, 2017, and from time to time thereafter, the holder of the PPC Notes (currently being only the Fund), together with the PPC Directors, will review PPC's facilities and pipeline operations, the economic conditions relating to the pipeline industry and the business prospects of PPC. If this review, in the opinion of the holders of the PPC Notes and the PPC Directors, indicates that it is unlikely that the indebtedness of PPC evidenced by the PPC Notes could be refinanced on the same terms and conditions upon maturity of the PPC Notes, then PPC will commence principal repayments on the PPC Notes such that the PPC Notes will be fully repaid upon maturity. In that event, PPC's available cash will be utilized to the extent required to fund such repayments in lieu of dividends on the PPC Shares.

The PPC Notes are unsecured debt obligations of PPC, are subordinate in right of payment to all secured debt of PPC and are also subordinate to all other debt of PPC that is unsecured but not expressly subordinated to the PPC Notes. **As a result, interest and principal payments from PPC to the Fund on the PPC Notes (and, as a result, distributions from the Fund to Unitholders) are subordinate to and rank behind in priority to payments to third party lenders to PPC.** See "Risk Factors – Risks Relating to the Fund's Structure and Securities – Debt Service" and "Risk Factors – Risks Relating to the Fund's Structure and Securities – Financial Leverage and Prior Ranking Indebtedness".

The following items constitute an event of default under the PPC Notes: (i) default in payment of the principal of the PPC Notes when due; (ii) the failure to pay the interest obligations of the PPC Notes when due, subject to the deferral of interest referred to above; (iii) default on any senior indebtedness for borrowed money; (iv) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership, general assignment for the benefit of creditors, or proceedings with respect to a compromise or arrangement under the *Companies' Creditors Arrangement Act* (Canada); (v) the taking of possession by an encumbrancer of all or substantially all of the property of PPC; (vi) ceasing to carry on in the ordinary course the business of PPC; (vii) default in performing any material lease, licence or other agreement whereby any material property or rights of PPC may be forfeited or terminated; and (viii) default in the observance or performance of any other covenant or condition of the PPC Notes and the continuance of such default for a period of 30 days after notice in writing has been given by the holder to PPC specifying such default and requiring PPC to rectify the same.

PPC's Credit Facilities and Senior Notes

PPC has available to it credit facilities with a syndicate of Canadian chartered banks. As of December 31, 2007, PPC had unsecured credit facilities in the aggregate amount of $530 million consisting of a $500 million revolving credit facility and a $30 million unsecured operating line of credit, of which $250 million was drawn. PPC's revolving credit facility currently has a term expiring July 24, 2012 with no repayments due over the term. See

"General Development of the Fund – Developments in 2007 – Other Matters – Credit Facilities". Additionally, as of December 31, 2007, PPC had outstanding $86.7 million of the $100 million principal amount of Secured Senior Notes originally issued in July 2002, $175 million of Unsecured Senior Notes originally issued in June 2004, $75 million Floating Rate Senior Notes originally issued in June 2004 and $200 million of Series C Senior Notes originally issued in September 2006. Payments with respect to the credit facilities and the Senior Notes rank in priority to payments made from PPC to the Fund, and, as a result, distributions from the Fund to Unitholders and payments of interest and, as required, repayment of principal by the Fund on the Convertible Debentures. The terms for both of the credit facilities and the Senior Notes are summarized in the Fund's management's discussion and analysis for the year ended December 31, 2007 and in Note 7 to the audited consolidated financial statements of the Fund for the year ended December 31, 2007. See "Risk Factors – Risks Relating to the Fund's Structure and Securities – Debt Service".

Capital Expenditures

PPC may approve and fund capital expenditures, however, all capital expenditures in excess of $20 million for a specific project must be approved by the PPC Directors. Routine operations are generally funded from available cash while ongoing pipeline development, material expansions and acquisitions of pipelines or other assets, including new connections to the system or for the provision of additional system storage capacity, will be funded primarily by borrowing by PPC or issuance of additional Trust Units or other securities by the Fund. See "Risk Factors – Risks Relating to the Fund's Structure and Securities – Additional Financing and Capital Resources".

Distribution Policy of PPC

PPC pays interest on (and in certain circumstances, repays principal of) the PPC Notes and distributes all of its remaining available net cash flow from its operations to the Fund, subject to applicable law and to PPC retaining appropriate working capital reserves, satisfying its financing covenants, making loan payments and, if applicable, establishing reclamation capital expenditure reserves. At the end of each month, the PPC Directors determine whether PPC has sufficient cash to declare a dividend for that month, to return capital on the PPC Shares or to repay principal on the PPC Notes and, if so, what the amount of any such payment will be. The decision of what amount, if any, to declare as a dividend, to repay as principal or to return as capital is based on the prevailing circumstances at the relevant time, including both current and anticipated operating cash flow, debt service costs and capital expenditure and working capital requirements. The distribution policy represents the present intention of PPC and is not legally binding upon the PPC Directors.

Other Operating Subsidiaries

Pembina's interests in its pipeline systems and other assets are held in several partnerships and limited partnerships, all of which are, directly or indirectly, wholly-owned by the Fund and PPC. See "Structure of the Fund – Structure". The cash generated from the operations of such entities is paid to PPC through partnership distributions and other payments, for subsequent payment (following the determination of the PPC Directors as to the payment amounts, as described above) by PPC to the Fund and the Fund to Unitholders.

RISK FACTORS

The following information is a summary only of certain risk factors relating to Pembina or an investment in securities of the Fund or its subsidiaries and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form.

Risks Inherent in Pembina's Business

Operational Hazards

Pipeline leaks are an inherent risk of operations. Other operating risks include: the breakdown or failure of equipment, information systems or processes; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); failure

to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs, and other similar events, many of which are beyond the control of the pipeline systems. A casualty occurrence could result in the loss of equipment or life, as well as injury and property damage, which could in turn increase the rest of operating Pembina's pipelines or reduce revenues, thereby impacting earnings. Pembina carries insurance coverage with respect to some, but not all, casualty occurrences in amounts customary for similar business operations, which coverage may not be sufficient to compensate for all casualty occurrences.

Midstream Business – Commercial Operations

Pembina's midstream commercial operations include product storage terminalling and hub services utilizing the Merchant Assets. These activities expose Pembina to certain risks including that Pembina may experience volatility in revenue due to variations in commodity prices. Primarily, Pembina enters into contracts to purchase and sell crude oil at floating market prices. The prices of products that are marketed by Pembina are subject to fluctuations as a result of such factors as seasonal demand changes, changes in crude oil markets and other factors. Generally, with the current high level of overall crude oil prices, Pembina expects its midstream revenues to remain strong compared to historical levels. While some volatility in overall revenues is expected, Pembina does not anticipate having any significant exposure. Pembina manages its risk exposure by trying to balance purchases and sales to lock-in margins. Notwithstanding Pembina's management of price and quality risk, marketing margins for crude oil can vary significantly from period to period and could have an adverse effect on the results of Pembina's commercial midstream business and Pembina's overall results of operations.

Regulation

Many of Pembina's pipeline operations are regulated and are subject to regulatory risk. The nature and degree of regulation and legislation affecting energy companies in Canada has changed significantly in past years and there is no assurance that further substantial changes will not occur. These changes may adversely affect toll structures or other aspects of pipeline operations or the operations of shippers.

Legislation in Alberta and British Columbia exists to ensure that producers have fair and reasonable opportunities to produce, process and market their reserves. In Alberta, the ERCB, and in British Columbia, the BCUC, may, on application and following a hearing (and in Alberta with the approval of the Lieutenant Governor in Council), declare the operator of a pipeline a common carrier of oil or natural gas and, as such, must not discriminate between producers who seek access to the pipeline. Producers and shippers may also apply to the regulatory authorities for a review of tariffs, and such tariffs may then be regulated if it is proven that the tariffs are not just and reasonable. Applications by producers to have a pipeline operator declared a common carrier are usually accompanied by an application to have the tariffs set by the regulatory authorities. The extent to which regulatory authorities in such instances can override existing transportation or processing contracts has not been fully decided. The potential for direct regulation of tolls, other than for the provincially regulated B.C. Pipelines, while considered remote by Pembina, could result in toll levels that are less advantageous to Pembina and could impair the economic operation of such regulated pipeline systems.

Environmental Costs and Liabilities

The operation of Pembina's pipeline systems and midstream assets are subject to Canadian federal and Alberta and British Columbia provincial laws and regulations relating to environmental protection and operational safety.

Although Pembina believes that the current operation of its pipeline systems and midstream assets is in compliance with all applicable environmental and safety regulations, risks of substantial costs and liabilities are inherent in oil and gas pipeline and midstream operations, and there can be no assurance that substantial costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, claims for damages to persons or property resulting from Pembina's operations, and the discovery of pre-existing environmental liabilities in relation to any of Pembina's existing or future properties or operations, could result in significant costs and liabilities to Pembina. In addition, the costs of environmental liabilities in relation to spill sites of which Pembina is currently aware (such as the Morinville and Westward Ho spill sites described above under "Description of Pembina's Business and Operations –

Pipeline Environmental Incidents") could be greater then Pembina currently anticipates, and any such differences could be substantial. If Pembina was not able to recover the resulting costs or increased costs through insurance or increased tariffs, cash flow available to make cash distributions to Unitholders and to service obligations under the Convertible Debentures would be adversely affected.

While Pembina maintains insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered within fixed time periods, which typically range from 72 hours to seven days. Although Pembina believes it has adequate leak detection systems in place to monitor a significant spill of product, if Pembina is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline and other assets at the end of their economic life, and these abandonment costs may be substantial. The proceeds of the disposition of certain assets, including, in respect of certain pipeline systems, line fill, may be available to offset abandonment costs. However, it is not possible to predict abandonment costs since they will be a function of regulatory requirements at the time and the value of Pembina's assets, including line fill, may then be more or less than abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures.

Reserves Replacement and Demand for Crude Oil and NGLs

Pembina's conventional pipeline tariff revenues are based upon a variety of tolling arrangements, including "deliver or pay" contracts, cost of service arrangements and market-based tolls. As a result, certain pipeline tariff revenues are heavily dependent upon throughput levels of crude oil, NGLs and condensate. Future throughput on Pembina's crude oil and NGLs pipelines and replacement of oil and gas reserves in the service areas will be dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Without reserve additions, or expansion of the service areas, throughput on such pipelines will decline over time as reserves are depleted. In addition, as oil and gas reserves are depleted or if product prices for crude oil, condensate and NGLs decline, production costs may increase relative to the value of the remaining reserves in place, causing producers to shut-in production, seek out lower cost alternatives for transportation, or pressure Pembina to reduce the effective tariffs.

Over the long term, Pembina's business will depend, in part, on the level of demand for crude oil, condensate, NGLs and natural gas in the markets served by the crude oil and NGL pipelines in which Pembina has an interest. Pembina cannot predict the impact of future economic conditions on the energy and petrochemical industries which in turn would affect the demand for crude oil, condensate, NGLs and natural gas. Oil, NGLs and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as economic, political and other conditions in other oil and natural gas regions, all of which are beyond Pembina's control.

Effect of the Alberta Royalty Framework on Customers Operations in Alberta

On October 25, 2007, the Alberta Government released the Proposed Royalty Regime which is scheduled to take effect on January 1, 2009 and modifies the manner in which royalties will be charged on oil and gas producing properties in Alberta. The Proposed Royalty Regime does not directly impact Pembina as it has no producing properties. However, the Proposed Royalty Regime may indirectly impact Pembina's results should the producers and shippers operating in areas serviced by Pembina decide to take actions, such as reduced capital programs or curtailment of volumes shipped, as a result of the Proposed Royalty Regime.

Competition

Pembina is subject to competition from other pipelines and midstream service providers in its service areas as well as other transporters of crude oil and NGLs. The introduction of competing transportation alternatives into Pembina's service areas could potentially have the impact of limiting Pembina's ability to adjust tolls as it may deem necessary. Additionally, potential pricing differentials on the components of NGLs may result in these components being transported by competing gas pipelines.

Furthermore, pursuant to SIFT Tax, Pembina will effectively be taxed at a level similar to Canadian corporations, starting in 2011 (assuming Pembina does not violate the "normal growth" safe harbour provisions prior to such time). Therefore, Pembina's proposed bids for Canadian corporate and asset acquisitions may be affected and adjusted for the impact of the SIFT Tax, and Pembina may not have the same competitive/cost of capital advantages with respect to corporate and asset acquisitions which income trusts have previously had. The SIFT Tax may put Pembina at a competitive disadvantage to other industry participants such as pension resource corporations, U.S. flow through entities such as master limited partnerships and limited liability companies, and U.S. corporations that are able to minimize Canadian tax through the use of inter-company debt and cross-border tax planning.

Shipper Contracts

As described above, throughput on certain of Pembina's pipelines (in particular, the Syncrude System, the Horizon Pipeline and the Western System) is or will be governed by transportation contracts or tolling arrangements with various producers of petroleum products. Any default by counterparties under such contracts or any expirations of such contracts or tolling arrangements without renewal or replacement may have an adverse effect on Pembina's business. See "Description of Pembina's Business and Operations – Overview – Conventional Pipelines – B.C. Pipelines" and "Description of Pembina's Business and Operations – Industry Regulations and Tariffs".

Completion of the Horizon Pipeline

The Horizon Pipeline is currently under construction. While Pembina and Canadian Natural have worked closely to reduce the risk of any cost overruns there is no assurance such cost overruns will not occur. In 2007, the cost estimate for the Horizon Pipeline increased by $50 million primarily due to cost escalation and changes to the scope of the project requested by Canadian Natural. Pembina has risk in some of the costs of this expansion and Pembina's return on the Horizon Pipeline could be reduced if certain cost overruns occur. Pembina is not currently aware of any significant cost overruns at the date hereof. Pursuant to the provisions of the agreements between Canadian Natural and Pembina, Canadian Natural is not entitled to terminate the agreements relating to the Horizon Pipeline now that construction has commenced. See "General Development of the Fund – Developments in 2007 – Oil Sands Infrastructure – Horizon Pipeline".

Nipisi Project

Pembina is currently in negotiations with prospective shippers for construction of the Nipisi Project See "General Development of the Fund – Developments in 2007 – Conventional Pipeline – Nipisi Project". This new project is in the early developmental stage. There can be no assurance that this project will proceed at all and if it does, its success will be dependent on many factors including gaining the support and approval of varied group of stakeholders and regulatory boards, as well as managing construction costs.

Condensate Initiative

Pembina is currently in negotiations with prospective shippers for construction of a transport service that, if constructed, would transport condensate from a marine terminal in Kitimat, British Columbia to Prince George, British Columbia, at which point the condensate can access Pembina's network of local, regional and inter-provincial pipelines to reach a range of markets. See "General Development of the Fund – Developments in 2007 – Conventional Pipelines – Condensate Initiative". This new project is in the very early developmental stage and it has not yet been determined to be a viable project. There can be no assurance that this project will proceed at all and

if it does, its success will be dependent on many factors including gaining the support and approval of varied group of stakeholders and regulatory boards, as well as managing construction costs.

Structural Integrity of the Storage Facility

The operation of the Storage Facility is subject to risks related to the nature of the salt caverns that are used to store ethylene. Three of the five ethylene storage caverns are due for regulatory workover including a mechanical integrity test ("**MIT**") in 2010. Successful completion of the workover and passing of the MIT would allow the caverns to operate for another ten years, with a mandatory mid-term online MIT evaluation required at the end of fifth year (2015). The other two caverns have successfully completed this regulatory workover and MIT in 2006 and 2007. The joint owners of this facility are examining alternative capacity options available on the property. If alternative capacity is not developed, failure of these caverns may result in them being taken out of service. This would result in a reduction in storage capacity on which revenues are based and could potentially decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures.

A deterioration in the integrity of the caverns could cause disruptions to the operations of the caverns and reduce the storage capacity of the Storage Facility for an extended period of time. This could have a negative effect on the revenues of the Storage LP, and therefore the Fund. In addition, the Storage LP may be required to make capital expenditures to ameliorate any such deterioration in excess of the obligations of Dow Canada and NOVA Chemicals to contribute to capital expenses under the Storage Agreement.

Reliance on Facilities Connected to the Storage Facility; Force Majeure

The Storage Facility is connected to the sources and end users of ethylene by facilities including NOVA Chemicals' ethylene delivery system and the Cochin Pipeline. The operations of the Storage Facility are closely integrated with the operations of the ethylene delivery system. Any major disruption affecting these related facilities as a result of mechanical problems or damage would make it considerably more difficult to transport ethylene to and from the Storage Facility. Although the terms of the Storage Agreement require the Storage Facility's customers to pay for the storage of ethylene whether capacity is used or not, Dow Canada and NOVA Chemicals are entitled to make reduced payments under the Storage Agreement if the Storage Facility is not able to inject or withdraw ethylene at specified minimum rates. The effect on the business of the Storage LP of a major disruption to these input/output facilities are difficult to predict. A major disruption or shutdown of these facilities may make the continued operation of the Storage Facility infeasible or uneconomic over the long term.

Reliance on Dow Canada and NOVA Chemicals

Dow Canada and NOVA Chemicals are the principal customers of the Storage LP, and together accounted for approximately 95% of the usage of the Storage Facility in 2007. Further, Dow Canada performs important functions for the Storage LP under an operating agreement and a facilities agreement, and NOVA Chemicals is the owner and operator of the ethylene delivery system, whose operations are essential to the operations of the Storage Facility. If, for any reason, either of Dow Canada or NOVA Chemicals were not able to perform its obligations under the Storage Agreement or the other agreements with the Storage LP to which they are a party, the revenue and profits of the Storage LP and the ability of the Storage LP to operate the Storage Facility could be negatively affected. Pembina attempts to partially mitigate any potential losses in this respect through the use of business interruption insurance.

Regulations Affecting the Storage Facility

The maintenance, operation and eventual abandonment of the Storage Facility is subject to compliance with all regulatory and environmental requirements applicable to it, in particular, those enforced or overseen by the ERCB and Alberta Environment. Currently, the statutory requirement for the frequency of review and certification of the caverns by the ERCB is once every eight years. However, Dow Canada, as the operator of the Storage Facility has voluntarily submitted each cavern for the review and certification process of the ERCB once every five years. Pembina believes that the current maintenance and operation of the Storage Facility is in compliance with all currently applicable regulatory requirements, including all environmental laws and regulations. However,

increasingly stringent regulatory requirements in the future could result in significant costs, obligations or liabilities with respect to the maintenance and operation of the Storage Facility in the future. Existing laws and regulations may be revised or new laws and regulations may be enacted which could have a negative effect on the business of the Storage LP and the results of operations of the Storage LP. In addition, the Storage Facility may become subject to regulations imposed by additional or new regulatory agencies.

In addition to the negative effect of potential new regulations on the Storage Facility directly, the Storage LP could be negatively affected by regulations that curtail the operations of NOVA Chemicals' ethylene delivery system or other facilities connected to the Storage Facility. If the Storage Facility is not able to receive ethylene because of a shutdown of the ethylene delivery system resulting from regulatory action, such event would affect the ability of the Storage Facility to operate.

Competition to the Storage Facility

The Storage Facility is currently the sole large-scale underground facility for the storage of ethylene in Alberta. Given the importance of ethylene storage to the petrochemical industry in Alberta, competition with the Storage Facility may arise, either from the development of new ethylene storage facilities in Alberta or by the conversion of existing hydrocarbon or natural gas storage caverns to ethylene storage. New storage facilities may be developed either through the mining of underground storage caverns in existing salt deposits or through the construction of above-ground storage facilities. It takes approximately three to five years to develop a new storage cavern and in order for a new underground cavern to be competitive with the Storage Facility, it would be necessary to link the cavern to new or existing ethylene or ethylene derivative support infrastructure. Pembina is not aware of any other parties developing caverns for ethylene storage in Alberta at this time. Construction of above ground storage is expensive when compared to the cost of developing underground storage and the risks to public health, safety and the environment are also higher with above ground storage. While an underground storage cavern that is currently used for NGLs could be converted into an ethylene storage facility within a few months, a link to existing petrochemical support infrastructure is required. The development of a competing ethylene storage facility could have a negative effect on the revenues and profitability of the Storage LP over the long term.

Reliance on Management and an Aging Workforce

Unitholders and other securityholders of the Fund or Pembina are dependent on senior management of PPC and the PPC Directors in respect of the governance, administration and management of all matters relating to Pembina and its operations and administration. The loss of the services of key individuals could have a detrimental effect on Pembina. Furthermore, similar to many companies in Western Canada, Pembina is facing the challenge of having to replace an aging workforce in a tightening labour market. As more and more of Pembina's employees reach retirement age, there is a risk that Pembina will not be able to replace such employees in an effective and cost efficient manner. The inability of Pembina to effectively replace an aging workforce could result in a loss of productivity and increased costs thereby adversely impacting the Fund's results of operations and earnings.

Potential Conflicts of Interest

Unitholders are dependent upon senior management of PPC and the PPC Directors for the governance and administration of the Fund and the management of Pembina. Additionally, certain directors and officers of PPC may be directors or officers of entities in competition to Pembina. As such, these directors or officers of PPC may encounter conflicts of interest in the administration of their duties with respect to Pembina.

Risks Relating to the Fund's Structure and Securities

Taxation of Income Trusts

On June 22, 2007, the legislation to implement the SIFT Tax received Royal Assent and became law. See "General Development of the Fund - Developments in 2007 – Other Matters – Changes to Taxation of Income Trusts". Pembina expects that the implementation of the SIFT Tax will result in adverse tax consequences to Pembina and

certain Unitholders (including most particularly Unitholders that are tax deferred or non-residents of Canada) and may impact the level of cash distributions from the Fund to its Unitholders. In particular:

- the Fund will be required to pay taxes, or higher amounts of taxes, in the future or in years earlier than it would under existing tax laws, which could decrease the amount of cash distributions available to unitholders;

- the ongoing structure of the Fund and its subsidiaries, including whether the Fund and its subsidiaries will continue to operate under the income trust model or convert to another model, including a corporate form, and the tax implications to the Fund, its subsidiaries and its unitholders as a result of any change on the Fund's structure;

- the ability of the Fund to pay monthly cash distributions and the amount of such distributions could be adversely affected;

- at the current time, Pembina does not expect the SIFT Tax to have a material impact on its debt covenants; and

- the trading price and liquidity of the Trust Units may be adversely affected.

Management of Pembina believes that the SIFT Tax has reduced, and may further reduce, the value of the Trust Units, which may increase the cost to the Fund of raising capital in the public capital markets. In addition, management of Pembina believes that the SIFT Tax: (a) has substantially, if not completely, eliminated any competitive advantage that the Fund and other Canadian income trusts have enjoyed relative to their corporate peers in raising capital in a tax efficient manner; and (b) may place the Fund and other Canadian income trusts at a competitive disadvantage relative to certain of their industry competitors, including non-taxable pension entities and U.S. master limited partnerships and limited liability companies, which will continue to not be subject to entity level taxation. The SIFT Tax may also make the Trust Units less attractive as consideration for acquisitions in the future. As a result, it may become more difficult for Pembina to compete effectively for acquisition opportunities. There can be no assurance that Pembina will be able to generate sufficient tax pools and/or reorganize its legal and tax structure in order to mitigate, in whole or in part, the expected impact of the SIFT Tax.

Additionally, as described under "General Development of the Fund - Developments in 2007 – Other Matters – Changes to Taxation of Income Trusts" any "undue expansion" beyond certain "normal growth" parameters could result in the transition period being terminated with the loss of the benefit to the Fund of that transitional period. As a result, the adverse tax consequences resulting from the SIFT Tax could be borne sooner than January 1, 2011.

While these guidelines are such that it is unlikely they would affect Pembina's ability to raise the capital required to maintain and grow Pembina's existing operations in the ordinary course during the transition period, they are expected to adversely affect the cost of raising capital and Pembina's ability to undertake more significant acquisitions. Furthermore, the guidelines, which are incorporated by reference into the statute, may be amended from time to time, and may be amended without an Act of the Canadian Parliament. Therefore, no assurance can be provided that such safe harbour provisions will remain in effect in the current form or that the Fund will not be subject to the SIFT Tax prior to 2011.

Debt Service

PPC and the Fund's other subsidiaries are permitted to borrow funds to finance the purchase of pipeline and other energy infrastructure assets, to fund capital expenditures and other financial obligations or expenditures in respect of those assets and for working capital purposes. Amounts paid in respect of interest and principal on debt incurred in respect of those assets reduce the amount of cash paid, directly or indirectly, by PPC and the Fund's other operating subsidiaries to the Fund. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes". Variations in interest rates and scheduled principal repayments, if required under the terms of the credit facilities or Senior Notes, could result in significant changes in the amount required to be applied to debt service before payments of cash by PPC or other operating subsidiaries to

the Fund, both of which could have detrimental effects on the amount of cash distributions paid by the Fund to Unitholders. Certain covenants contained in the agreements with PPC's lenders and Senior Noteholders may also limit such payments to the Fund. Although Pembina believes the existing credit facilities are sufficient for its immediate requirements, there can be no assurance that the amount will be adequate for the future financial obligations of Pembina or that additional funds will be able to be obtained on terms favourable to Pembina or at all.

The holders of the Secured Senior Notes have been provided with security over substantially all of the assets of Pembina, as well as certain guarantees and subordination agreements. The lenders under Pembina's unsecured credit facilities and other two classes of Senior Notes have also been provided with similar guarantees and subordination agreements. If Pembina becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, payments to all of the lenders will rank in priority to payments made by PPC to the Fund, and subsequent payments made by the Fund to Unitholders and holders of Convertible Debentures.

Payments by PPC to the Fund are prohibited during a default or event of default under the credit facilities or the Senior Notes. Distributions on the PPC Shares and payments on the PPC Notes, which are unsecured, are specifically subordinate to the credit facilities and the Senior Notes, which will restrict the ability of PPC to make such payments to the Fund, and therefore limit the cash distributions of the Fund that may be paid to Unitholders and holders of Convertible Debentures, during a default or event of default under any of the credit facilities or the Senior Notes.

PPC, on a consolidated basis, is also required to meet certain financial covenants under the credit facilities and the Senior Notes and is subject to customary restrictions on its operations and activities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets.

PPC may manage the risk associated with fluctuations in interest rates by entering into interest rate swap transactions from time to time. See Note 16 to the Fund's audited consolidated financial statements for the year ended December 31, 2007. To the extent that PPC engages in such risk management activities, they will be subject to credit risks associated with counterparties with which they contract.

Furthermore, the payment of interest and, as required, repayment of principal on the Convertible Debentures rank in priority to the payment of cash distributions by the Fund to Unitholders and as a result cash distributions to Unitholders may be reduced where significant amounts are required to service the payment obligations on the Convertible Debentures.

Limited Purpose Trust and Reliance Upon the Operations of PPC and Other Subsidiaries

The Fund is a limited purpose trust which is entirely dependent upon the operations and assets of PPC, and the Fund's other indirect wholly-owned operating subsidiaries, through the Fund's ownership of the PPC Shares and of the PPC Notes. Accordingly, the ability to make distributions to the holders of Trust Units and to pay obligations under the Convertible Debentures, including interest and principal, will be dependent upon the ability of PPC to pay interest on or principal of the PPC Notes (or other debt instruments issued by PPC or other operating subsidiaries to the Fund), and to declare and pay dividends or repay capital in respect of the PPC Shares. Such payments on the PPC Notes, and any other debt instruments issued by PPC or other operating subsidiaries to the Fund, are subordinated to the obligations under PPC's credit facilities and the Senior Notes. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation - PPC Notes Issued to the Fund". PPC's income is received from its pipeline and other energy infrastructure businesses and is susceptible to the risks and uncertainties associated with those industries, as well as the oil and gas industry which Pembina's operations serve. If the net cash flow generated by Pembina's businesses and operations declines, the ability of Pembina to continue to generate cash flow for distribution by the Fund to Unitholders may be adversely affected. See " – Risks Inherent in Pembina's Business" above.

Variability of Cash Distributions

Distributions by the Fund to Unitholders may fluctuate and there can be no assurance regarding the amounts thereof. The actual amount of the cash distributions will depend upon the underlying operations and business of the Fund's

operating subsidiaries, including operating cash flow, general and administrative costs, debt service costs, taxes, capital expenditures, reclamation reserves, if any, and working capital requirements. Future cash flows generated by additional assets acquired by Pembina may not be similar to those generated by its existing assets and may not generate sufficient cash flows to allow the Fund to maintain consistent distributions to Unitholders over an extended period of time. Payments by Pembina's customers to Pembina, or from the Fund's operating subsidiaries to the Fund, may be delayed or reduced by restrictions imposed by lenders, disruptions in service or oilfield operations, or the ability of PPC to delay interest payments on the PPC Notes for up to twelve months in certain circumstances. Such factors may inhibit the Fund's ability to make monthly cash distributions to Unitholders.

Additional Financing and Capital Resources

The timing and amount of capital expenditures of Pembina directly affects the amount of cash distributions that are paid by the Fund to Unitholders. Future acquisitions, expansions of Pembina's pipeline systems and midstream operations and other capital expenditures will be financed from sources such as cash generated from operations, the issuance of additional Trust Units or other securities of the Fund, and borrowings. Distributions may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Pembina, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional Trust Units or other securities or the availability of additional credit facilities, becomes limited or unavailable, the ability of Pembina to make the necessary capital investments to maintain or expand its operations and to invest in assets, as the case may be, will be impaired. To the extent Pembina is required to use cash flow to finance capital expenditures or acquisitions, the level of cash distributions to Unitholders of the Fund may be reduced.

Financial Leverage and Prior Ranking Indebtedness

Current or future borrowings will increase the level of financial risk to Pembina and, to the extent that the interest rates are not fixed or that borrowings are refinanced at different rates, will increase the sensitivity of cash distributions paid by the Fund to interest rate variations. The Trust Units are effectively subordinate to all other indebtedness of Pembina, including to any indebtedness to or claims of trade creditors of Pembina. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC Notes Issued to the Fund".

Potential Sales of Additional Securities of the Fund and Dilution to Existing Unitholders

The Fund may issue additional Trust Units, convertible debentures or other securities in the future to finance certain of Pembina's capital expenditure requirements or for other purposes, which may dilute a Unitholder's cash distributions per Trust Unit. The Declaration of Trust permits the Fund to issue an unlimited number of Trust Units or other securities of the Fund without the approval of Unitholders. The Unitholders will have no pre-emptive rights in connection with such additional issues. The responsibility of determining the price and the terms of issue of additional Trust Units or other securities of the Fund has been delegated to PPC, subject to the supervision of the PPC Directors. See "Description of the Fund and the Trust Units – Declaration of Trust – Trust Units and Other Securities of the Fund".

Nature of Trust Units

The Trust Units do not represent a traditional investment in the pipeline or energy infrastructure industry and should not be viewed by investors as shares in a pipeline or energy infrastructure company. Securities such as the Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. Trust Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. The Trust Units are not obligations of, or interests in, any person other than the Fund. The Fund's sole assets are investments in its operating subsidiaries. As holders of Trust Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions, and the Fund and its Unitholders may not be in a position to benefit from or utilize insolvency or restructuring legislation to the same extent as if the Fund were a corporation. The Fund's sole assets will be investments which a mutual fund trust is permitted to make pursuant to the Tax Act (currently being securities and

notes issued by the Fund's operating subsidiaries) and related contractual rights. The market price per Trust Unit is a function of anticipated cash distributions of the Fund, the value of the assets acquired by Pembina and the ability to effect long-term growth in the value of the Fund, and in part, is sensitive to a variety of market conditions including, but not limited to, interest rates and the ability of Pembina to acquire and maintain suitable pipeline and energy infrastructure assets. Changes in market conditions may adversely affect the trading price of the Trust Units.

Market Value of Trust Units and Other Securities

Pembina cannot predict at what price the Trust Units, Convertible Debentures or other securities issued by the Fund will trade in the future. Trust Units, Convertible Debentures and other securities of the Fund will not necessarily trade at values determined solely by reference to the underlying value of Pembina's assets. One of the factors that may influence the market price of such securities is the annual yield on the Trust Units and the Convertible Debentures. An increase in market interest rates may lead purchasers of Trust Units or Convertible Debentures to demand a higher annual yield and this could adversely affect the market price of the Trust Units or Convertible Debentures. In addition, the market price for the Trust Units and the Convertible Debentures may be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of Pembina.

Changes in Legislation

In addition to the risks described under " – Changes to Taxation of Income Trusts" above, there can be no assurance that income tax laws (including those under the Tax Act relating to the status of mutual fund trusts), regulatory and environmental laws or policies and government incentive programs relating to the pipeline or oil and natural gas industry, will not be changed in a manner which adversely affects the Fund or its Unitholders or other securityholders. Additionally, legislation may be implemented to limit the investment in income funds and royalty trusts by certain investors or to change the manner in which these entities are taxed. The Canadian Tax Act and the tax treaties between Canada and other countries may impose additional withholding or other taxes on the cash distributions or other property paid by the Fund to Unitholders who are not residents of Canada, and these taxes may change from time to time. Tax authorities having jurisdiction over the Fund or the Unitholders may disagree with how Pembina calculates its income for tax purposes or could change administrative practices to Pembina's detriment or the detriment of its Unitholders.

Investment Eligibility and Tax Issues

Pembina will endeavour to ensure that the Trust Units and the Convertible Debentures continue to constitute "qualified investments" for trusts governed by Exempt Plans under the Tax Act. Although the Fund currently qualifies, and intends to continue to qualify, as a "mutual fund trust" under the Tax Act, if the Fund ceases to qualify as a "mutual fund trust", the Trust Units and Convertible Debentures will cease to be "qualified investments" for Exempt Plans. Where, at the end of any month, an Exempt Plan holds Trust Units that are not "qualified investments", the Exempt Plan must, in respect of the month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units and/or Convertible Debentures at the time the Trust Units and/or Convertible Debentures were acquired by the Exempt Plan. The annuitant under an Exempt Plan could also be subject to penalty taxes in such a case. In addition, if the Fund ceases to qualify as a "mutual fund trust", the Fund will then be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for Unitholders and other securityholders of the Fund. One of the ways in which the Fund could potentially cease to qualify as a "mutual fund trust" would be if non-residents of Canada within the meaning of the Tax Act were to become the beneficial owners of a majority of the Trust Units. There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which may adversely affect Unitholders or holders of Convertible Debentures. See " – Changes to Taxation of Income Trusts" and " – Changes in Legislation" above and "General Development of the Fund - Developments in 2007 - Other Matters - Changes to Taxation of Income Trusts".

Although Pembina is of the view that all expenses to be claimed by the Fund, PPC and the Fund's other operating subsidiaries will be reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties will have been correctly determined, there can be no assurance that the Canada Revenue Agency ("**CRA**") will agree. If the CRA successfully challenges the deductibility of any such expenses or

the correctness of such cost amounts or capital cost allowance claims, the return to Unitholders may be adversely affected.

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs or with respect to any act or omission of the Trustee or any other person, nor shall any Unitholder be liable to indemnify the Trustee or any other person with respect to such liabilities, and that only the Fund's assets shall be available to satisfy claims against the Fund. In the event that a court determines Unitholders are subject to any such liabilities, the judgement in respect of such liabilities will be enforceable only against, and will be satisfied only out of the Unitholder's share of the Fund's assets. The Declaration of Trust also provides that the Fund, the Trustee and PPC shall use all reasonable efforts to ensure that all obligations or liabilities of the Fund contain a provision to the effect that neither the Unitholders nor the Trustee have any personal liability or obligations in respect thereof. Notwithstanding the terms of the Declaration of Trust, because of uncertainties in the law relating to investment trusts, Unitholders may not be protected from liabilities of the Fund to the same extent that a shareholder is protected from liabilities of a corporation.

Effective July 1, 2004 the *Income Trusts Liability Act* (Alberta) was proclaimed in force. The legislation creates a statutory limitation on the liability of unitholders of Alberta income trusts such as the Fund. The legislation provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the legislation comes into effect. The legislation does not affect the liability of unitholders with respect to any act, default, obligation or liability that arose before July 1, 2004 and there is no assurance that such legislation will eliminate all risk of Unitholder liability.

In conducting its affairs, the Fund will assume certain existing contractual obligations and may have to do so in the future. Although Pembina will use reasonable efforts to have any contractual obligations modified so as not to have such obligations binding upon any of the Unitholders personally, it may not obtain such modification in all cases, or such modification may not operate to avoid Unitholder liability in all cases. To the extent that any claims under such contracts are not satisfied by the Fund, there is a risk that a Unitholder may be held personally liable for obligations of the Fund where the liability is not disavowed, as described above.

Personal liability may also arise in respect of claims against the Fund that do not arise under contract, including claims in tort, claims for taxes and possibly other statutory liabilities. Pembina intends to cause the activities of the Fund to be conducted, with the advice of counsel, in such a way and in such jurisdictions as to avoid, to the extent they deem practicable, any material risk of liability on the Unitholders for claims against the Fund. Most insurance policies will have exclusions for certain environmental or other liabilities.

Based on the foregoing and considering the nature of the Fund's activities, that it intends to comply with all environmental regulations relating to its assets and the insurance policies which it holds, the possibility of any personal liability of this nature arising is considered remote, particularly where the beneficiaries are not controlling the day-to-day activities of the Fund and there is no direct contact between the beneficiaries of the Fund and parties who contract with the Fund, each of which conditions is satisfied in the case of the Fund and its Unitholders.

Redemption Right

It is anticipated that the redemption right will not be the primary mechanism for holders of Trust Units to liquidate their investment. Cash distributions are subject to limitations and there can be no assurance the Fund will be in a position to redeem Trust Units for cash when requested to do so. Any PPC Notes and PPC Shares which may be distributed *in specie* to holders of Trust Units in connection with a redemption will not be listed on any stock exchange and no market is expected to develop for PPC Notes and PPC Shares. Any PPC Notes which may be distributed may not be qualified investments for trusts governed by an Exempt Plan. PPC Shares which may be distributed may not be qualified investments for trusts governed by such Exempt Plans, depending on the law existing at the time of the distribution. In addition, there may be resale restrictions imposed by law upon the recipients of PPC Shares and PPC Notes pursuant to the redemption right. See "Description of the Fund and the Trust Units – Declaration of Trust – Redemption Right".

DISTRIBUTIONS TO UNITHOLDERS

Monthly Cash Distributions

Unitholders of record on each Record Date (currently being the last business day of each month) are, to the extent declared by the PPC Directors, entitled to receive monthly cash distributions from the Fund which will be paid on the 15th day of the following month.

The Fund's cash distributions are sourced from the net cash flow realized from its ownership, through its operating subsidiaries, of pipeline and energy-related infrastructure assets. The actual amount of the Fund's cash distributions is determined by management and the PPC Directors taking into account the prevailing circumstances at the relevant time, and depends on the results of operations of the Fund's subsidiaries including, among other things (i) current and anticipated operating cash flow, (ii) general and administrative expenses of the Fund and its subsidiaries, (iii) capital expenditures, (iv) the level of any cash reserves and reclamation reserves, (v) the amount of debt repayment and service costs, and (vi) working capital requirements. Payments from the Fund's operating subsidiaries to the Fund, and the subsequent cash distributions paid to Unitholders, are subject to restrictions on payment in certain circumstances, as such payments are generally subordinate to debt obligations owed to third parties by the Fund's subsidiaries. See "Risk Factors – Risks Relating to the Fund's Structure and Securities – Variability of Cash Distributions", "Risk Factors – Risks Relating to the Fund's Structure and Securities – Debt Service" and "Description of the Fund and the Trust Units – Declaration of Trust – Cash Distributions".

The after-tax return from an investment in the Fund's Trust Units to Unitholders subject to Canadian income tax can be made up of both a return on and a return of capital. That composition may change over time, thus affecting an investor's after-tax return. Returns on capital are generally taxed as ordinary income in the hands of a Unitholder. For Canadian resident Unitholders returns of capital are generally tax-deferred (and reduce the holder's cost base in the Trust Units for tax purposes). For unitholders who are not residents of Canada, a 15% withholding tax is levied on returns of capital by the Fund.

An investment in the Trust Units is subject to a number of risks that should be considered by an investor. The market value of the Trust Units may deteriorate if the Fund is unable to meet its cash distribution targets in the future, and that deterioration may be material. See "Risk Factors".

Historical Cash Distributions

The Fund has paid the following cash distributions to Unitholders in the past three fiscal years. The historical distribution payments described below may not be reflective of future distribution payments.

Month of	Cash Distribution Per Trust Unit		
Payment Date	2007	2006	2005
January	$0.11	$0.095	$0.0875
February	$0.11	$0.095	$0.0875
March	$0.11	$0.095	$0.0875
April	$0.11	$0.095	$0.0875
May	$0.11	$0.095	$0.0875
June	$0.11	$0.095	$0.0875
July	$0.11	$0.095	$0.0875
August	$0.11	$0.095	$0.0875
September	$0.12	$0.100	$0.0875
October	$0.12	$0.100	$0.0875
November	$0.12	$0.100	$0.0875
December	$0.12	$0.100	$0.0875
Total	**$1.36**	$**1.165**	**$1.0500**

In January of 2008, a distribution of $0.12 per Trust Unit was paid to Unitholders and in each of February and March of 2008, a distribution of $0.12 per Trust Unit was paid or declared payable to Unitholders.

MARKET FOR SECURITIES

The outstanding Trust Units of the Fund are listed and posted for trading on the TSX under the symbol "PIF.UN". The following table sets forth certain trading information for the Trust Units on the TSX in 2007.

Month	High	Low	Close	Volume
January	$16.24	$15.36	$16.08	6,414,731
February	$17.40	$15.80	$16.35	4,024,176
March	$16.42	$15.75	$15.86	5,018,000
April	$16.57	$15.25	$16.50	4,009,677
May	$17.14	$15.83	$16.94	5,011,334
June	$16.89	$15.03	$15.96	5,277,762
July	$17.55	$16.00	$17.03	4,211,247
August	$17.74	$15.67	$16.64	4,527,423
September	$17.73	$16.02	$17.73	3,568,066
October	$17.97	$16.46	$17.95	4,591,099
November	$17.99	$16.10	$17.79	3,362,934
December	$17.70	$16.61	$17.54	3,737,689

The 7.50% convertible debentures of the Fund were listed and posted for trading on the TSX under the symbol "PIF.DB.A" prior to their maturity on June 30, 2007. The following table sets forth certain trading information for the 7.50% convertible debentures on the TSX in 2007.

Month	High	Low	Close	Volume
January	$153.20	$139.23	$153.20	5,080
February	$161.00	$146.02	$155.03	7,370
March	$155.02	$141.03	$150.67	3,960
April	$156.48	$146.00	$156.47	3,440
May	$160.02	$151.99	$157.75	10,620
June	$159.02	$139.01	$139.01	32,930

The outstanding 7.35% Convertible Debentures of the Fund are listed and posted for trading on the TSX under the symbol "PIF.DB.B". The following table sets forth certain trading information for the 7.35% Convertible Debentures on the TSX in 2007.

Month	High	Low	Close	Volume
January	$129.50	$121.41	$128.49	8,980
February	$135.24	$122.02	$130.11	9,910
March	$130.82	$126.01	$127.00	3,540
April	$134.37	$121.01	$134.37	4,350
May	$135.07	$127.84	$135.02	11,770
June	$134.08	$120.59	$126.55	4,350
July	$140.00	$129.11	$132.00	7,430
August	$140.47	$127.35	$128.05	5,520
September	$140.34	$129.12	$140.34	12,500
October	$144.00	$132.00	$142.00	10,360
November	$144.00	$127.04	$138.00	6,670
December	$139.40	$132.55	$136.00	6,903

Additionally, in July 2002, PPC issued, on a private placement basis, $100 million in Secured Senior Notes due 2017; in June 2004, PPC issued, on a private placement basis, $175 million in Unsecured Senior Notes due 2014 and $75 million in Floating Rate Senior Notes due 2009; and in September 2006, PPC issued, on a private placement basis, $200 million in Series C Senior Notes due 2012. The Senior Notes are not publicly traded. See Note 7 to the Fund's audited consolidated financial statements for the year ended December 31, 2007 for additional information regarding the Senior Notes.

DIRECTORS AND OFFICERS

Directors of PPC

The following table sets out the name and residence for each director of PPC as of the date of this Annual Information Form, the date on which they were appointed as a director of PPC (or as a trustee of the Fund prior to an internal reorganization in which the directors of PPC replaced a board of trustees of the Fund as the entity responsible for the governance of the Fund) and their principal occupations during the past five years.

Name and Residence	Date Appointed	Principal Occupation During the Past Five Years
David A. Bissett(3)(4) Calgary, Alberta, Canada	May 3, 2001	Independent businessman
Allan L. Edgeworth(2)(4)(5) Calgary, Alberta, Canada	July 1, 2006	President of ALE Energy Inc. (a private consulting company) since 2005. Formerly Chief Executive Office of Alliance Pipeline Ltd. from 2001 to 2004
Randall J. Findlay(3) Calgary, Alberta, Canada	March 8, 2007	Corporate director. Formerly President of Provident Energy Trust from 2001 to 2007
Lorne B. Gordon(1)(3)(5) Calgary, Alberta, Canada	October 24, 1997	Independent businessman. Formerly Vice Chairman of Coril Holdings Ltd. (a private investment and holding company) from 2004 to 2006 and Chief Executive Officer of Coril Holdings Ltd. from 1997 to 2004.
Myron F. Kanik(3)(5) Calgary, Alberta, Canada	October 24, 1997	Independent businessman
David N. Kitchen(2)(4)(6) Calgary, Alberta, Canada	October 24, 1997	Independent businessman
Robert B. Michaleski Calgary, Alberta, Canada	January 4, 2000	President and Chief Executive Officer of PPC
Robert F. Taylor(2)(5) Calgary, Alberta, Canada	October 24, 1997	Independent businessman

Notes:
(1) Chairman of the Board.
(2) Member of Audit Committee.
(3) Member of Human Resources and Compensation Committee.
(4) Member of the Health, Safety and Environment Committee.
(5) Member of the Governance Committee.
(6) Mr. Kitchen will be retiring effective April 30, 2008.

Unitholders elect the directors of PPC at each annual meeting of the Fund's Unitholders. The directors of PPC serve until the next annual meeting of the Fund's Unitholders or until their successors are duly elected or appointed. All of the PPC Directors are "independent" within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, adopted by the Canadian Securities Administrators, with the exception of Mr. Michaleski, who is the President and Chief Executive Officer of PPC.

The board of directors of PPC has four committees, being the Audit Committee, the Health, Safety and Environment Committee, the Human Resources and Compensation Committee and the Governance Committee, each of which are made up of independent directors with no relationship to management. Additional information regarding the

responsibilities of these committees is contained under the heading "Statement of Corporate Governance Practices" in the Fund's information circular dated March 5, 2008 for its 2008 annual general meeting of Unitholders.

Executive Officers of PPC

The following table sets out the name, residence and office held with PPC for each executive officer of PPC, as well as their principal occupations during the past five years.

Name and Residence	Office with PPC	Principal Occupation During the Past Five Years
Robert B. Michaleski Calgary, Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer of PPC
Michael H. Dilger Calgary, Alberta, Canada	Vice President, Business Development	Vice President, Business Development since March 2005; prior thereto President, Venturi Energy in 2004 and Vice President and Chief Financial Officer, Vista Midstream since 1999
S. Bruce Harris Calgary, Alberta, Canada	Vice President, Operations	Vice President, Operations of PPC since December 1, 2003; prior thereto, Manager of Pipeline Operations of PPC
Glenys E. Hermanutz Calgary, Alberta, Canada	Vice President, Corporate Affairs	Vice President, Corporate Affairs since November 1, 2006; prior thereto Manager, Corporate Development since 2004, Manager, Investor Relations from 1997 to 2004.
Peter D. Robertson Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of PPC
D. James Watkinson, Q.C. Calgary, Alberta, Canada	Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary of PPC

As at March 5, 2008, the directors and executive officers of PPC beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 1,191,453 Trust Units, representing 0.9% of the then outstanding Trust Units of the Fund.

Conflict of Interest

The directors and executive officers named above may be directors or officers of issuers which are in competition to the Fund. As such, these directors or officers of PPC may encounter conflicts of interest in the administration of their duties with respect to the Fund. See "Risk Factors – Risks Inherent in Pembina's Business – Potential Conflicts of Interest".

Governance Agreement

The Governance Agreement sets forth certain provisions regarding the governance of PPC and its sole shareholder, the Fund. The articles of amalgamation of PPC provide that the number of directors is fixed at a minimum of five and a maximum of nine. Based on an ordinary resolution passed at an annual general meeting of Unitholders, the Trustee shall vote the PPC Shares to appoint the directors of PPC, provided that the directors may, between such meetings appoint one or more additional directors to serve until the next annual meeting, provided that the number of additional directors shall not exceed one-third of the number of directors who hold office at the expiration of the last annual meeting. The Governance Agreement will remain in force for as long as the Management Agreement

remains in force. The Governance Agreement also provides that, as long as the Fund owns at least 25% of the PPC Shares, it is entitled to control 100% of the votes associated with the PPC Shares.

AUDIT COMMITTEE INFORMATION

The Audit Committee's Charter

The Audit Committee Charter is set forth in Appendix "A" to this Annual Information Form.

Composition of the Audit Committee

The Fund's Audit Committee is comprised of Robert F. Taylor as Chairman, Allan L. Edgeworth and David N. Kitchen, each of whom is independent and financially literate within the meaning of the Multilateral Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators. Set forth below are additional details regarding each member of the Audit Committee.

Robert F. Taylor

Robert F. Taylor is the Chairman of the Audit Committee. Mr. Taylor has no direct or indirect material relationship with PPC and is therefore able to exercise independent judgment in his role on the Committee. He became Executive Vice President of Shell Canada Resources in 1991, following three years with Shell International Petroleum Company in London, England. He is currently a Director of McTay Holdings Limited, a private land development company and Sempa Power Systems Limited a private company that has a focus on reducing energy costs and greenhouse gas emissions. He is actively involved in the governance of The Duke of Edinburgh Commonwealth Study Conferences. This experience, coupled with his designation as a Chartered Accountant, which he received in 1965, provide him with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Allan L. Edgeworth

Allan L. Edgeworth has been a member of the Audit Committee since his appointment as a director of PPC on July 1, 2006. He is independent of PPC in that he has no direct or indirect material relationship with PPC. Mr. Edgeworth has an extensive energy pipeline background, having held a number of positions at the senior executive level, the most recent being President and CEO of Alliance Pipeline Ltd. from 2001 to 2004. He holds a Bachelor of Applied Science in Geological Engineering and is a graduate of the Queen's Executive Program. His education and work history illustrate that he is financially literate and has the skills to manage the level and complexity of the accounting issues dealt with by the Audit Committee.

David N. Kitchen

David N. Kitchen has been a director of PPC since April 1999. He is independent of Pembina as he has no direct or indirect material relationship with Pembina. Mr. Kitchen has an Honours Degree in Political Science and Economics from the University of Toronto and is a graduate of the Executive Program in Business from Columbia University. His education and work history, which includes being Senior Vice-President and General Manager, Alberta and Northwest Territories with the Royal Bank of Canada and Senior Vice-President, Global Energy of the Royal Bank, indicates his financial literacy and competency to work with the issues handled by the Audit Committee. Mr. Kitchen will be retiring effective April 30, 2008, at which time he will be replaced on the Audit Committee.

All members of the Audit Committee possess the work experience and education necessary to understand the accounting principles used by Pembina to prepare financial statements, the ability to assess the general application of such accounting principals, and the ability to analyze and evaluate financial statements of the Fund.

External Auditor Service Fees

The following table sets out the fees paid to the external auditor in each of the last two financial years for services provided to Pembina:

Year	Audit Fees[1]	Audit-Related Fees[2]	Tax Fees[3]	All Other Fees[4]
2007	$258,000	$15,000	$59,000	$45,000
2006	$274,000	$12,000	$51,000	$nil

Notes:

(1) Audit fees were for professional services rendered by KPMG LLP for the audit of the Fund's annual financial statements and reviews of the Fund's quarterly financial statements, as well as services provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees are for assurance and related services reasonably related to the performance of the audit or review of the Fund's financial statements and not reported under "Audit fees" above.

(3) Tax fees were for tax compliance, tax advice and tax planning. The fees were for services performed by the Fund's auditors' tax division except those tax services related to the audit.

(4) All other fees are fees for products and services provided by the Fund's auditors other than those described as "Audit fees", "Audit-related fees" and "Tax fees". In 2007, these fees related to an enterprise wide risk assessment performed by the Fund's auditor. The purpose of the assessment was to identify major business risks faced by Pembina and to develop contingency plans in an attempt to reduce their consequences.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the directors and executive officers of PPC, none of the directors or executive officers of PPC, and no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Trust Units, and no associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any material transaction with Pembina since January 1, 2004 or in any proposed transaction that would materially affect Pembina, except as set forth below. With the exception of Glenys E. Hermanutz, the executive officers of PPC (including Robert B. Michaleski, who is also a director of PPC) were, prior to the Management Internalization, also shareholders, directors and officers of the Manager, which, prior to the Management Internalization, received payment of fees for managing the business and affairs of the Fund and its subsidiaries pursuant to the Management Agreement. In 2006, total compensation paid to the Manager pursuant to the Management Agreement prior to the Management Internalization was $1,037,073, consisting of $679,450 of management fees and $357,623 of distribution-based incentive fees. No acquisition fees were paid to the Manager and the Manager was not reimbursed for any expenses during this period. As stated above, each of the executive officers of PPC was a Shareholder of the Manager prior to the Management Internalization and thus received payment from PPC for their shares of the Manager pursuant to the Management Internalization. See "General Development of the Fund – Management Internalization".

MATERIAL CONTRACTS

Set out below are the contracts material to the Fund and its subsidiaries that are currently in effect, other than contracts entered into in the ordinary course of business:

1. the Declaration of Trust (see "Description of the Fund and the Trust Units – Declaration of Trust"); and

2. the Governance Agreement (see "Directors and Officers – Governance Agreement").

Copies of the above contracts are filed on the Fund's SEDAR profile at www.sedar.com.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the Trust Units and the Convertible Debentures is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario.

INTERESTS OF EXPERTS

The auditors of the Fund are KPMG LLP, Chartered Accountants, Calgary, Alberta, Canada. KPMG LLP has confirmed that is independent in accordance with the relevant rules and related interpretation prescribed by the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on the Fund's company profile on the SEDAR website at www.sedar.com and on Pembina's website at www.pembina.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Fund's Structure and Securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in the Fund's information circular dated March 5, 2008 for its 2008 annual general and special meeting of Unitholders which has been filed on SEDAR. Furthermore, additional financial information relating to the Fund is provided in the Fund's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2007, which have also been filed on SEDAR.

APPENDIX "A"

AUDIT COMMITTEE CHARTER

The Audit Committee is a committee of the board of directors (the "**Board**") of PPC to which the Board has delegated certain responsibilities relating to the integrity of financial reporting, oversight of the external auditors, and the performance of internal accounting procedures, for the Fund, PPC and Pembina as a whole. The Audit Committee also prepares reports, if and when required, for inclusion in Pembina's disclosure documents.

The objectives of the Audit Committee are:

(a) to assist the Board in fulfilling its oversight responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements and related matters;

(b) to enhance the external auditor's independence;

(c) to increase the transparency, credibility and objectivity of financial reporting; and

(d) to enhance communication between management, the external auditors, and the Board.

Membership and Policies

The Board will appoint members of the Audit Committee. The Audit Committee must be composed of not less than three members of the Board, each of whom must be independent (as that term is defined in an audit committee context by applicable securities laws). The Board will fill any vacancy in the event the Audit Committee has less than three members and may remove members by resolution.

Each member of the Audit Committee must be financially literate. An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by the financial statements.

The Governance Committee, together with the Board Chair, will select the Chair of the Audit Committee from amongst its members.

The Audit Committee has the authority to select, engage and remunerate independent counsel and other advisers to assist in carrying out its duties, as deemed necessary. Pembina will provide appropriate funding to compensate the external auditor and any advisors that the Audit Committee chooses to engage.

In discharging its duties under this Charter, the Audit Committee may investigate any matter brought to its attention and will have access to all books, records, facilities and personnel, may conduct meetings or interview any officer or employee, PPC's legal counsel, external auditors and consultants, and may invite any such persons to attend any part of any meeting of the Audit Committee.

The Audit Committee has neither the duty nor the responsibility to conduct audit, accounting or legal reviews, or to ensure that PPC's financial statements are complete, accurate and in accordance with generally accepted accounting principles ("**GAAP**"); rather, management is responsible for the financial reporting process, internal review process, and the preparation of PPC's financial statements in accordance with GAAP, and PPC's external auditors are responsible for auditing those financial statements.

Functions

External Auditor

The Audit Committee is directly responsible for the appointment, termination, compensation, retention and oversight of the work of the external auditing firm employed by PPC (including resolution of disputes between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee's selection of the external auditor is subject to approval by the Fund as sole shareholder and by the Unitholders and as required by the Declaration of Trust.

The external auditor will report directly to the Audit Committee.

The Audit Committee must pre-approve all auditing services and permitted non-audit services provided by the external auditor, and will consider whether the provision of any non-audit services is compatible with the auditor's independence.

The Audit Committee will evaluate, at least annually, the auditor's qualifications, performance and independence. The Audit Committee will present its conclusions with respect to the external auditor to the Board.

Employees or former employees of the external auditor may not be hired by PPC without the prior approval of the Audit Committee.

Oversight of Financial Statements and Internal Controls and Procedures

The Audit Committee will meet with management and the external auditor to discuss annual and quarterly financial statements and management's discussion and analyses and earnings press releases. The Audit Committee will review and discuss the financial information to be included in public disclosure documents and determine whether to recommend to the Board that the financial statements be presented to the Fund as sole shareholder and to the Unitholders.

At each meeting, the Audit Committee will meet in-camera, without management or external auditors present, and will meet in a separate session with the lead partner of the external auditor.

The Audit Committee will review with the Chief Financial Officer (the "**CFO**") and the external auditor any changes in accounting policies as well as any other significant financial reporting issues.

The Audit Committee will review with the external auditors:

(a) plans, staffing and scope for each annual audit;

(b) the results of the annual audit and resulting opinion including major issues regarding accounting and auditing principles and practices;

(c) the adequacy of internal controls; and

(d) audit problems or difficulties and management's responses in respect of disagreements and to facilitate the resolution of such disagreements and restrictions on the scope of access to information.

The Audit Committee will review with the Chief Executive Officer (the "**CEO**") and the CFO PPC's disclosure controls and procedures and at least annually will review management's conclusions about the efficacy of disclosure controls and procedures, including any significant deficiencies or material non-compliance with disclosure controls and procedures.

The Audit Committee will establish a Whistleblower Policy, including procedures for:

(a) the receipt, retention and treatment of complaints received by PPC regarding accounting, internal accounting controls or auditing matters; and

(b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Audit Committee will review with management and the external auditor any material correspondence with regulators or government agencies and any employee complaints or published reports which raise issues regarding PPC's financial statements or accounting policies.

The Audit Committee will meet periodically with the appropriate legal advisors to review material legal issues, PPC's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Additional Duties and Responsibilities

The Audit Committee will also:

(a) review the appointments of the CFO and any other key financial executives who are involved in the financial reporting process;

(b) review and reassess the adequacy of this Charter annually and submit any proposed changes to the Governance Committee for approval;

(c) review all corporate insurance policies (excluding Directors' and Officers' Liability Insurance) annually;

(d) facilitate information sharing with other committees as required to address matters of mutual interest or concern in respect of PPC's financial reporting;

(e) report regularly to the Board on its activities, including the results of meetings and reviews undertaken, and any associated recommendations;

(f) receive and review reports from the corporate pension committee at Pembina and to recommend or approve changes as appropriate with respect to risk management of pension assets and liabilities, actuarial valuation as required by statute, the Statement of Investment Policies and Procedures, funding policy and fund performance for the pension plans; and

(g) jointly with the Human Resources and Compensation Committee, report on the status of the pension plans to the Board at least annually.

The Audit Committee will perform such other functions as are assigned by law and PPC's By-laws, and on the instructions of the Board.

Meetings

The Audit Committee will meet quarterly, or more frequently at the discretion of the members of the Audit Committee, as circumstances require.

Notice of each meeting of the Audit Committee will be given to each member and to the external auditor, who is entitled to attend each meeting of the Audit Committee. The notice will:

(a) be in writing (which may be communicated by fax or email);

(b) be accompanied by an agenda that states the nature of the business to be transacted at the meeting in reasonable detail;

(c) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and

(d) be given at least 48 hours preceding the time stipulated for the meeting, unless notice is waived by the committee members.

A quorum for a meeting of the Audit Committee is a majority of the members present in person or by telephone.

If the Chair is not present at a meeting of the Audit Committee, a Chair will be selected from among the members present. The Chair will not have a second or deciding vote in the event of an equality of votes.

The Audit Committee may invite others to attend any part of any meeting of the Audit Committee as it deems appropriate. This includes other directors, members of management, any employee, PPC's legal counsel, external auditors and consultants.

Minutes will be kept of all meetings of the Audit Committee. The minutes will include copies of all resolutions passed at each meeting, will be maintained with PPC's records, and will be available for review by members of the Audit Committee, the Board, and the external auditor.