PEMBINA PIPELINE INCOME FUND

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2009

March 19, 2010

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GLOSSARY OF TERMS

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

"**2010 Information Circular**" means the Fund's information circular for its 2010 annual general and special meeting of Unitholders to held on May 7, 2010, which is expected to be mailed to Unitholders on in the first half of April, 2010 and will be available under the Fund's SEDAR profile at www.sedar.com at that time;

"**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 Pipeline, the Northern Pipeline, the Drayton Valley Pipeline, the Swan Hills Pipeline, the Brazeau/Caroline Pipeline, the Miscible Flood Pipeline, the Bonnie Glen Pipeline and the Wabasca Pipeline;

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

"**AUC**" means the Alberta Utilities Commission of the Government of Alberta;

"**Base Shelf Prospectus**" has the meaning ascribed thereto under "General Development of the Fund – Developments in 2009 – Other Matters – Base Shelf Prospectus Filing";

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

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

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

"**Bridge Credit Facility**" has the meaning ascribed thereto under "General Development of the Fund – Developments in 2009 – Other Matters – Credit Facilities";

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

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

"**Cheecham Lateral**" means the 56 kilometre lateral pipeline and related facilities delivering SCO from an existing pump station on the Syncrude Pipeline to a 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 9 to the Fund's audited consolidated financial statements for the year ended December 31, 2009;

"**Corporate Conversion**" has the meaning ascribed thereto under "Structure of the Fund – Corporate Conversion";

"**Cremona Pipeline**" means the approximately 340 kilometre pipeline system delivering crude oil, condensate and butane from northwest of Calgary, Alberta to either the Rangeland Pipeline or to Bowden, Alberta, which was sold by Pembina in December of 2009. See "General Development of the Fund – Developments in 2009 – Conventional Pipelines – Sale of the Cremona Pipeline";

"**Cutbank Complex**" means PGS Limited Partnership's interest in the interconnected sweet gas processing facilities comprising the Cutbank Gas Plant, the Musreau Gas Plant and the Kakwa Gas Plant and the associated pipelines and compressors and the agreements related thereto;

"**Cutbank Gas Plant**" means the facility owned 100% by PGS Limited Partnership located at 07-16-062-08 W6M;

"**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 on April 28, 2000 and April 29, 2009, 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 Pipeline**" 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, tax free savings accounts 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 which came due and were repaid in full on June 22, 2009 and which had 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 approximately 500 kilometre pipeline system and related facilities designed to deliver SCO from the Horizon Project into the Edmonton, Alberta area, which was completed in 2008. See "Description of Pembina's Business and Operations – Overview – Oil Sands and Heavy Oil – Horizon Pipeline";

"**Horizon Project**" means CNRL'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";

"**Kakwa Gas Plant**" means the facility jointly owned by EnCana Corporation and PGS Limited Partnership, each as to an undivided 50% interest, located at 01-35-060-05 W6M;

"**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";

"**May 2009 Offering**" has the meaning ascribed thereto under "General Development of the Fund – Developments in 2009 – Other Matters – Trust Unit Offering";

"**Merchant Assets**" means the midstream storage (excluding the Storage Facility), terminalling, hub activities and marketing assets of Pembina;

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

"**Mitsue Pipeline**" means the pipeline system and related facilities that Pembina has agreed to construct, subject to certain conditions, pursuant to the Mitsue TSAs and which Pembina expects to consist of a combination of newly constructed and existing six inch and eight inch diameter pipeline and related facilities capable of providing up to 22,000 bbls/d of condensate transportation service for product received at Whitecourt, Alberta and delivered to Utikuma, Alberta for use as a diluent for heavy oil. See "General Development of the Fund – Developments in 2009 – Oil Sands and Heavy Oil – Nipisi and Mitsue Pipelines";

"**Mitsue TSAs**" means the transportation service agreements entered into among Pembina, Cenovus Energy Inc. (formerly EnCana Corporation), CNRL and Pembina Midstream Limited Partnership in respect of the Mitsue Pipeline. See "General Development of the Fund – Developments in 2009 – Oil Sands and Heavy Oil – Nipisi and Mitsue Pipelines ";

"**Musreau Gas Plant**" means the Musreau A and Musreau C trains, owned 100% by PGS Limited Partnership, and the Musreau B train, jointly owned by ConocoPhillips Canada (BRC) Partnership and PGS Limited Partnership, each as to an undivided 50% interest, located at 04-25-062-06 W6M;

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

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

"**Nipisi Pipeline**" means the pipeline system and related facilities that Pembina has agreed to construct, subject to certain conditions, pursuant to the Nipisi TSAs and which Pembina expects to consist of a combination of newly constructed and existing 20 inch and 24 inch diameter pipeline and related facilities to provide up to 200,000 bbls/d of blended heavy oil transportation service for product received at Utikuma, Alberta and delivered to Edmonton, Alberta. See "General Development of the Fund – Developments in 2009 – Oil Sands and Heavy Oil – Nipisi and Mitsue Pipelines ";

"**Nipisi TSAs**" means the transportation service agreements entered into among Pembina, Cenovus Energy Inc. (formerly EnCana Corporation), CNRL and Pembina Midstream Limited Partnership in respect of the Nipisi Pipeline. See "General Development of the Fund – Developments in 2009 – Oil Sands and Heavy Oil – Nipisi and Mitsue Pipelines ";

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

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

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

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

"**Peace Pipeline**" means the approximately 2,050 kilometre pipeline system and related facilities delivering light crude oil, condensate, propane mix (C_3+) and ethane mix (C_2+) 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;

"**PGS Limited Partnership**" means Pembina Gas Services Limited Partnership, a limited partnership formed under the laws of the Province of Alberta that is a wholly–owned subsidiary of the Fund;

"**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;

"**Record Date**" means the dates on which Unitholders of record will be entitled to distributions paid by the Fund, currently being the 25th day of each calendar month, except for December for which the Record Date is December 31, and such other dates as may be determined from time to time by the Trustee. See "General Development of the Fund – Developments in 2009 – Other Matters – Amendment to Declaration of Trust and Distribution Record Date";

"**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 $73.4 million principal amount were outstanding as of December 31, 2009;

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

"**Series D Senior Notes**" means the $267 million aggregate principal amount of unsecured senior notes of PPC issued November 18, 2009 and due November 18, 2019 and which bear interest at a fixed rate of 5.91% per annum. See "General Development of the Fund – Developments in 2009 – Other Matters – Series D Senior Unsecured Note Financing";

"**SIFT Tax**" has the meaning ascribed thereto under "General Development of the Fund – Change to Taxation of Income Trusts";

"**SIFT Trust**" has the meaning ascribed thereto under "General Development of the Fund – Change to Taxation of Income Trusts";

"**Storage Agreement**" means the 20 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 and Marketing";

"**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% non-operating 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 50% by Pembina and 50% by Dow Canada;

"**Swan Hills Pipeline**" means the approximately 500 kilometre pipeline system and related facilities 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 Pipeline**" means the approximately 430 kilometre pipeline system and related facilities delivering SCO from the Syncrude Project 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 Pipeline**" means the approximately 190 kilometre pipeline system and related facilities delivering crude oil from the East Peace River Arch area of northern Alberta to the Plains Rainbow Pipeline System; and

"**Western Pipeline**" means the approximately 820 kilometre pipeline system and related facilities 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, 2009 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
mmcf/d	million cubic feet 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.l59
cubic meters	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, 2009, which may be found on the Fund's company profile on the SEDAR website at www.sedar.com, are presented in compliance with Canadian generally accepted accounting principles ("**GAAP**"). Certain of the financial information included in such financial statements is contained within this Annual Information Form. Readers should also take note, however, that within this Annual Information Form the terms "net operating income", "distributable cash", "distributed cash" and "net revenue" are used to describe certain financial information of the Fund and that these terms are not defined by GAAP. This term is equal to revenue less operating expenses, as applicable in the context in which it is used.

The term "net operating income" is used to describe certain financial information of the Fund and is not defined by GAAP. This term is equal to revenue less operating expenses, as applicable in the context in which it is used. The Fund believes that the term "net operating income" is a useful measure. The Fund 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.

The term "distributable cash" is a measure that the Fund uses to manage its business and to assess future cash requirements that impact the determination of future distributions to Unitholders and is not defined by GAAP. The Fund defines distributable cash as cash flow from operations less pension and post retirement benefit expense net of contributions, net changes in non-cash working capital, Trust Unit based compensation expense and financing fees. The impact of these items is excluded in the calculation of distributable cash as it adjusts for timing differences throughout the year. The term "distributed cash" means the amount of cash that has been or is available for distribution to Unitholders, as calculated in accordance with the Declaration of Trust, and is not defined by GAAP. The term "distributed cash per Trust Unit" is calculated on a weighted average basis using the number of basic and diluted Trust Units outstanding throughout the year and is not defined by GAAP. The Fund believes that the terms "distributable cash", "distributed cash" and "distributed cash per Trust Unit" are useful measures, which are indicative of the cash flow available for distribution and which has been distributed.

The term "net revenue" is defined by Pembina as revenue net of product purchases.

Readers should be cautioned however that the terms "net operating income", "distributable cash", "distributed cash" and "net revenue" should not be construed as alternatives to the Fund's cash flow from operating activities, net earnings, 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, 2009). Furthermore, these measures may not be comparable to similar measures presented by other issuers. For more information, see the Fund's management's discussion and analysis for the year ended December 31, 2009, which contains a reconciliation of the Fund's distributed cash relative to cash flow from operating activities and net earnings for the years ended December 31, 2007, 2008 and 2009.

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, 2009, which has been filed on the Fund's SEDAR profile at www.sedar.com.

ACCOUNTING PRINCIPLES

The Canadian Institute of Chartered Accountants Accounting Standards Board confirmed in February 2008 that Canadian publicly accountable enterprises must adopt International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board, effective January 1, 2011.

For more information with respect to the Fund's adoption of IFRS, see the "Future Accounting Changes" section of the Fund's management's discussion and analysis for the year ended December 31, 2009, which has been filed on the Fund's profile on the SEDAR website at www.sedar.com.

FORWARD–LOOKING STATEMENTS AND INFORMATION

Certain statements contained in this Annual Information Form constitute "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "**forward-looking statements**"). All forward-looking statements are based on Pembina's current expectations, estimates, projections, beliefs and assumptions based on information available at the time the statement was made and in light of its experience and its perception of historical trends. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan", "intend", design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential" and similar expressions are intended to identify forward-looking statements. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Pembina believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form contain forward-looking statements pertaining to, among other things, the following:

- the completion of the Corporate Conversion and the ability of the Fund to maintain its current level of cash distributions to equity holders both prior to and after the completion of the Corporate Conversion through 2013 (in the form of dividends paid by PPC on the PPC Shares after the Corporate Conversion is completed). See "Structure of the Fund – Corporate Conversion";

- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, including in relation to the Nipisi and Mitsue Pipelines, facilities or other energy infrastructure;

- changes in legislation relating to the Fund and its structure, including income tax considerations and the treatment of income and mutual fund trusts;

- pipeline system operations and throughput levels;

- oil and gas industry exploration and development activity levels;

- Pembina's strategy and the development of new business initiatives;
- 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 dividends and the tax treatment thereof;
- operating risks and related insurance coverage and inspection and integrity systems; and
- competitive conditions.

Various factors or assumptions are typically applied by Pembina in drawing conclusions or making the forecasts, projections, predictions or estimates set out in forward-looking statements based on information currently available to Pembina. These factors and assumptions include, but are not limited to:

- the timely receipt of required regulatory approvals and the consent of Pembina's lenders to the Corporate Conversion;
- that the Corporate Conversion will be completed as planned on the terms and conditions as described herein;
- the success of Pembina's operations;
- prevailing commodity prices and exchange rates;
- the availability of capital to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and turnarounds;
- future operating costs;
- the future exploration for and production of oil, NGLs and natural gas in the capture area around Pembina's conventional and midstream and marketing assets, including new production from the Cardium formation in Western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;
- prevailing regulatory, tax and environmental laws and regulations; and
- certain assumptions disclosed elsewhere in this Annual Information Form and in the Fund's management's discussion and analysis for the year ended December 31, 2009 under the headings "Forward-Looking Statements and Information", "New Developments and Outlook", "Capital Expenditures", "Contractual Obligations", "Liquidity and Capital Resources", "Critical Accounting Estimates" and "Changes in Accounting Principles and Practices".

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the material risk factors set forth below, elsewhere in this Annual Information Form:

- the inability of the Fund and PPC to obtain the necessary Unitholder, Court, regulatory and other third-party approvals in respect of the Corporate Conversion, in a timely fashion, or at all;

- the Corporate Conversion may not be completed when planned or at all or on the terms and conditions set forth herein;
- 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;
- non-performance or default by counterparties to agreements which the Fund, PPC or one or more of their affiliates has entered into in respect of its business;
- 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;
- continued adverse general economic and market conditions and further changes thereto in Canada, North America and elsewhere, including changes in interest rates, foreign currency exchange rates and commodity prices; and
- the other factors discussed under "Risk Factors" herein and in the Fund's management's discussion and analysis for the year ended December 31, 2009.

These factors should not be construed as exhaustive. Unless required by law, Pembina does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements contained herein are expressly qualified by this cautionary statement.

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 terminalling, storage and hub facilities and services and infrastructure, and a midstream and marketing business including a 50% interest in an underground ethylene storage facility and certain gas gathering and processing facilities. The business segments of PPC are grouped for functional, geographic and accounting purposes into three categories: conventional pipelines in Alberta and in British Columbia; oil sands and heavy oil; and midstream and marketing. 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.

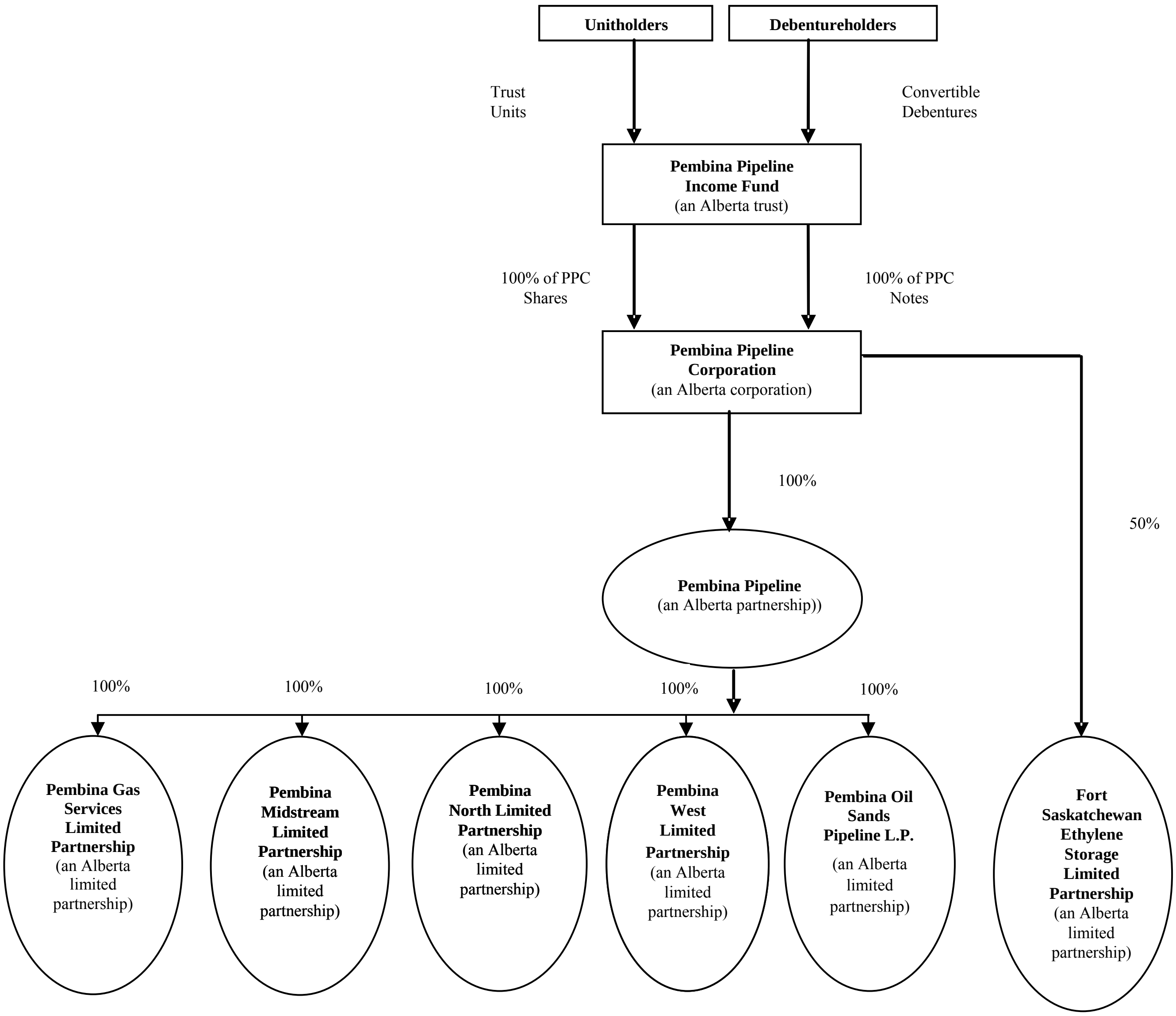
Corporate Conversion

On March 4, 2010, Pembina announced its intention to ask the Unitholders to vote, at the annual general and special meeting of Unitholders to be held May 7, 2010, on a special resolution in respect of converting the Fund's structure into a corporate entity (the "**Corporate Conversion**"). If approved, and if the other conditions to completing the Corporate Conversion are met or waived (including the receipt of Court approval and the consents from certain of Pembina's lenders), the Corporate Conversion will result in the reorganization of Pembina's trust structure into a growth oriented, dividend paying corporate structure, with PPC being the publicly traded entity. PPC will continue to carry on the business it presently carries out on behalf of the Fund. Following the completion of the Corporate Conversion, it is expected that the senior management of PPC will be substantially the same and the board of directors of PPC will be comprised of all of the current members of such board of directors, except for one director, Mr. David A. Bissett, who has indicated that he will retire at the upcoming Unitholders meeting. Additional information in respect of the Corporate Conversion will be contained in the 2010 Information Circular. See "General Development of the Fund – Developments in 2009 – Corporate Conversion".

In some instances this Annual Information Form provides forward-looking statements relating to the planned Corporate Conversion, however, as this Annual Information Form primarily references past financial and operating performance concerning the Fund's trust structure (primarily financial results and operating performance for 2009 and 2008), the information contained within this Annual Information will, in most instances, be applicable to the Fund and the Unitholders and not the planned corporate structure that is expected to exist following completion of the Corporate Conversion.

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. This chart does not reflect any of the changes that may result to the structure of Pembina's business as a result of the Corporate Conversion. Any such changes will be discussed in the 2010 Information Circular.



GENERAL DEVELOPMENT OF THE FUND

Developments in 2007 and 2008

In 2007, Pembina began work on the second and third phases of construction of the Horizon Pipeline, continued the ongoing development of its conventional pipelines and midstream and marketing businesses, including the completion of product segregation facilities on the Drayton Valley Pipeline and the Peace Pipeline, and began work on the development of the Nipisi and Mitsue Pipelines. See "Description of Pembina's Business and Operations" and " – Developments in 2009".

In 2008, Pembina announced the successful completion of construction work for the Horizon Pipeline, which primarily involved an expansion to the existing Syncrude Pipeline. Pembina began work on the $400 million project in November 2006, and the three phases of construction were completed on schedule. In 2008, Pembina also signed the Nipisi and Mitsue TSAs and began the development of the Nipisi and Mitsue Pipelines, and reached toll settlements with its shippers on the Western Pipeline. See "Description of Pembina's Business and Operations" and " – Developments in 2009".

Developments in 2009

Conversion to a Corporation

In view of the impending SIFT Tax in Canada, Pembina continued its detailed review in 2009 to determine the best path forward for the Fund and its stakeholders. On March 4, 2010, the Fund announced that the board of directors of PPC had approved the Corporate Conversion. The Fund intends to seek Unitholder approval for the Corporate Conversion at its annual general and special meeting to be held May 7, 2010. Subject to receipt of all required stock exchange, regulatory and Court of Queen's Bench approvals, and receipt of the consent of Pembina's lenders, the Fund expects that the Corporate Conversion will become effective on July 1, 2010, provided that the board of directors of PPC has discretion to delay implementation of the Corporate Conversion to not later than December 31, 2010. Under the Corporate Conversion, Unitholders will receive one PPC Share for each Trust Unit they hold. Additional information in respect of the Corporate Conversion will be contained in the 2010 Information Circular.

Since the third quarter of 2008, Pembina has stated that it believes it is well positioned to maintain its current level of cash distributions to Unitholders ($1.56 per Trust Unit per year) following corporate conversion (in the form of a dividend of $1.56 per PPC Share per year after conversion, expected to be paid as a monthly dividend of $0.13) through 2013. Based on the Fund's current assumptions, expectations, estimates and projections, this outlook remains unchanged. Solid fundamentals in each of Pembina's business units and a large inventory of growth opportunities lend confidence to Pembina's expectation that this level of dividend, post conversion, can be continued through 2013 while maintaining a prudent capital structure and continuing to fund its planned growth initiatives. Further, Pembina believes the more favourable tax treatment afforded to the receipt of dividends, as compared to distributions of income, under current Canadian tax law, may result in more attractive after-tax returns for certain eligible taxable Canadian investors, depending on individual circumstances.

The assumptions that Pembina has made in connection with its determination that Pembina can maintain its current per Trust Unit level of cash distributions to holders of PPC Shares in the years immediately following completion of the Corporate Conversion (in a form of a dividend) include: (i) the maintenance of current operating results (including, but not limited to: consistency of transportation volume forecasts on conventional liquids pipelines consistent with recent multi-year average production processes, and reasonably foreseeable extension and expansion opportunities; maintenance of operating margins on conventional liquids pipelines through effective revenue management in consultation with customers and diligent cost mitigation activities, consistent with maintaining safe, reliable, low-cost services, with forecast inflation of 4 percent to 5 percent being substantially offset by a combination of volume or toll changes; the ongoing application and third-party performance of certain long-term agreements in each of Pembina's businesses that contribute 30 to 40 percent of net operating income, specifically, contracts applied to conventional crude oil and oil sands transportation and other services, the Storage Facility, and gas gathering and processing facilities; consistency of crude oil and natural gas prices with publicly available information related to future and forward derivative contracts); (ii) the further progression and execution of the Nipisi Pipeline and Mitsue Pipeline projects at expected timelines to meet an in-service date of mid-2011, and the operation of those assets with projected net operating income of $45 million annualized (including the ability to finance the remaining Nipisi Pipeline and Mitsue Pipeline projects' capital expenditures utilizing existing credit facilities and the continuation, if required, of the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan of the Fund at prudently forecasted rates); (iii) the deferral of cash tax payments through 2013 (including by the utilization of current tax pools of $1.3 billion to defer taxes payable to beyond 2013, and by the continuance of current and the execution of proposed Canadian federal tax legislation); and (iv) that Pembina can obtain all necessary approvals in respect of the Corporate Conversion in a timely fashion (including Unitholder approval, Court approval, TSX approval and the approval of Pembina's lenders).

Pembina believes the factors listed above will generate significant and sustainable cash flow from operating activities that will support the planned cash distributions by the Fund prior to the effective date of the Corporation Conversion and by PPC (in the form of dividends) after the effective date. However, there can be no assurance this level of distributions and dividends will be achieved. Such payments may be delayed or reduced by restrictions imposed by lenders, disruptions in services or the ability of PPC, under certain circumstances, to delay interest payments on its Secured Senior Notes for up to 12 months.

See "Risk Factors" and "Forward–Looking Statements and Information".

Conventional Pipelines

Additional Connections and Other Upgrades

During 2009, Pembina completed $15.9 million in facility upgrades on the Alberta Pipelines and $6.9 million on the B.C. Pipelines. These growth opportunities and ongoing industry development of some of Pembina's conventional service areas continue to allow Pembina to maintain stable cash flows in this business unit. Pembina also continued to work on a number of new connections in the Waskahigan, Kaybob, Swan Hills and Drayton Cardium areas, some of which Pembina expects to come on-stream in 2010, while others will be under construction or in negotiation with producers. In coming years, Pembina will continue to explore opportunities for enhanced oil recovery projects, such as CO_2 sequestration and transportation on its conventional pipeline systems, as well as position itself to participate in the Cardium development, should it arise.

Sale of the Cremona Pipeline

In December 2009, Pembina sold the Cremona Pipeline.

Oil Sands and Heavy Oil

Horizon Pipeline

During 2009, Pembina received its first full calendar year of revenue from the Horizon Pipeline, which began generating revenue under Pembina's transportation service agreement with CNRL during the third quarter of 2008. See "Description of Pembina's Business and Operations – Overview – Oil Sands and Heavy Oil – Horizon Pipeline".

Nipisi and Mitsue Pipelines

During 2009, Pembina continued with its plans in respect of the construction of the Nipisi and Mitsue Pipelines and, as of the end of 2009, engineering on both projects was 80 percent complete. In March 2009, following an extensive shipper consultation process, PPC's board of directors approved a plan to expand the design capacity of the Nipisi Pipeline to a maximum of 200,000 bbls/d, from the original design capacity of 100,000 bbls/d. As a result, Pembina increased the combined capital estimate for the Nipisi and Mitsue Pipelines to approximately $440 million, from the original estimate of $400 million.

The Nipisi and Mitsue TSAs provide for committed ship-or-pay throughput on the Nipisi and Mitsue Pipelines by the shippers for an initial 10 year term from the in-service date, with extension rights. Under the terms of the Nipisi and Mitsue TSAs, Pembina is, subject to certain conditions, contractually committed to the construction and the operation of the Nipisi and Mitsue Pipelines. Pembina also plans to construct a truck terminal and trim blending facility to facilitate truck area receipts to the Nipisi Pipeline. As noted above, Pembina currently projects the cost of these pipelines to be approximately $440 million, with $82.1 million of that amount expended to December 31, 2009. Pembina anticipates that approximately $152 million will be spent in 2010 and the balance by mid–2011. Pembina expects to utilize its undrawn bank facilities to finance the initial costs of the pipelines and access the debt and equity markets (including, if required, through the continuation of its Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan and issuances of debt or equity securities under the Base Shelf Prospectus), or a combination thereof. Pembina's plans for the Nipisi and Mitsue Pipelines are subject to regulatory approval and the necessary applications have been submitted to regulators, including the ERCB. Pembina continues to consult with stakeholders on the projects through various means including traditional land use and environmental impact studies. Pembina expects the regulatory decisions relating to the projects in late 2010 and construction will begin as soon as practical once approvals are granted. See "Risk Factors – Risks Inherent in Pembina's Business – Completion of the Nipisi and Mitsue Pipelines" and "Description of the Fund and the Trust Units – Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan" and " – Other Matters – Base Shelf Prospectus Filing".

Midstream and Marketing

Acquisition of the Cutbank Complex

On June 2, 2009, PGS Limited Partnership, a wholly-owned indirect subsidiary of the Fund, completed the acquisition of the Cutbank Complex gas gathering and processing facilities from Talisman Energy Canada for $297 million. The acquisition of the Cutbank Complex was funded by Pembina with a combination of bank debt from the Bridge Credit Facility and the net proceeds from the May 2009 Offering.

The Cutbank Complex is operated as an interconnected sweet gas gathering and processing complex. Processing capacity of the Cutbank Complex is approximately 360 mmcf/d (305 mmcf/d net to Pembina). See "Description of Pembina's Business and Operations – Overview – Midstream and Marketing – Cutbank Complex".

Pembina believes that the addition of the Cutbank Complex will provide an opportunity for its midstream and marketing business to integrate activity across and NGL and crude oil value chains.

Service Expansions

In 2009, Pembina continued to expand its midstream and marketing business by expanding its operations at existing truck terminals on the Peace Pipeline, by developing new hub assets at Namao and Cloverbar and by realizing a full year of operations at a new truck terminal on the Drayton Valley Pipeline and at its full service terminal at LaGlace, Alberta, as part of a joint venture with Secure Energy Inc. See "Description of Pembina's Business and Operations – Overview – Midstream and Marketing".

Other Matters

Credit Facilities

On April 23, 2009, the Fund announced that Pembina had obtained a 5 year unsecured non-revolving credit facility from a Canadian chartered bank in the aggregate amount of $75 million. Effective June 30, 2009, Pembina's operating facility was amended to increase the maximum available borrowings under that facility from $30 million to $50 million. In 2009, Pembina also obtained a $150 million non-revolving credit facility for an 18 month period to December 1, 2010 (the "**Bridge Credit Facility**"). The Bridge Credit Facility was available in one single draw to finance the acquisition of the Cutbank Complex and was fully drawn on June 2, 2009. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes".

Trust Unit Offering

On May 20, 2009, the Fund closed a bought deal financing pursuant to which it issued and sold 12,694,000 Trust Units (the "**May 2009 Offering**") at a purchase price of $13.00 per Trust Unit for gross proceeds of $165,022,000, including 1,154,000 Trust Units issued upon the exercise in full of an over-allotment option granted to the underwriters at a price of $13.00 per Trust Unit. The Fund used the net proceeds from the issue of Trust Units under the May 2009 Offering together with borrowings under the Bridge Credit Facility to complete the acquisition of the Cutbank Complex.

Base Shelf Prospectus Filing

On July 17, 2009, the Fund filed a final base shelf prospectus with the securities commissions or similar regulatory authorities in each of the Provinces of Canada (the "**Base Shelf Prospectus**"). The Base Shelf Prospectus allows the Fund to offer and issue, from time to time: (i) Trust Units; (ii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of the Fund ("**Debt Securities**"); (iii) warrants to purchase Trust Units and warrants to purchase Debt Securities ("**Warrants**"); and (iv) subscription receipts of the Fund (the "**Subscription Receipts**" and together with the foregoing, collectively, the "**Securities**") of up to $1,000,000,000 aggregate initial offering price of Securities (or the equivalent thereof in one or more foreign currencies or composite currencies, including United States dollars) during the 25 month period that the Base Shelf Prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more shelf prospectus supplements.

Series D Senior Unsecured Note Financing

On November 18, 2009, PPC closed a private placement of $267 million of unsecured Series D Senior Notes which will mature on November 18, 2019 and bear interest at a fixed rate of 5.91 percent. The Series D Senior Notes were sold to institutional investors in the United States and Canada. The proceeds from the sale of the Series D Senior Notes were used to repay existing bank debt and the balance was used for general corporate purposes. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes".

Amendment to Declaration of Trust and Distribution Record Date

On April 29, 2009, the board of directors of PPC passed a resolution approving certain amendments to the Declaration of Trust to provide the Fund with the flexibility to change its Record Date from the last calendar day of each month (other than December) to an earlier date, primarily to accommodate the administration of the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan. The Declaration of Trust was amended, with the agreement of the Trustee, effective April 29, 2009 to accommodate the foregoing. See "Description of Trust Units–Cash Distributions" and "– Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan".

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

On March 16, 2010, Pembina announced that is was suspending its Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "**Plan**") effective April 25, 2010 and, as such, the optional equity and premium cash payments under the Plan will not be available to Unitholders in respect of cash distributions starting with the distribution payable in respect of the April 25, 2010 record date. Pembina took this action based on the strength of Pembina's balance sheet and the Fund's view that it does not require further equity investment at this time. Pembina believes it has the ability to fund currently planned capital expenditures and may resume the Plan in the future should it be required to fund new investing or financing activities. See "Description of the Fund and the Trust Units – Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan".

Change 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 (a "**SIFT Trust**") to tax at rates comparable to the combined federal and provincial corporate tax rates (the "**SIFT Tax**"). 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 January 1, 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 a SIFT Trust, "normal growth" includes equity growth within certain "safe harbour" limits, measured by reference to the market capitalization of the SIFT Trust as of the end of trading on October 31, 2006 (which would include only the market value of the 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.

On December 4, 2008, the Department of Finance (Canada) announced changes to the normal growth guidelines to allow a SIFT Trust to accelerate the utilization of the SIFT Trust's annual safe harbour amount for each of 2009 and 2010 so that the aggregate safe harbour amount for 2009 and 2010 is available on and after December 4, 2008. This change does not alter the maximum permitted expansion for a SIFT Trust, but allows a SIFT Trust to use its normal growth room remaining as of December 4, 2008 in a single year, rather than staging a portion of the normal growth room over the 2009 and 2010 years.

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, 2010 is approximately $2.2 billion (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 approximately $2.8 billion). As at March 4, 2010, the Fund has raised approximately $0.4 billion of equity which would count towards this "safe harbour" amount, leaving $1.8 billion available.

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 12 to the Fund's audited consolidated financial statements for the year ended December 31, 2009.

On March 4, 2010, Pembina announced its intention to ask the Unitholders to vote, at the annual general and special meeting of Unitholders to be held May 7, 2010, on a special resolution in respect of converting the Fund's structure into a corporate entity.

For additional information see " – Developments in 2009 – Corporate Conversion" and "Risk Factors — Risks Relating to Capital Structure and Securities – Taxation of Income Trusts".

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.

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.

DESCRIPTION OF PEMBINA'S BUSINESS AND OPERATIONS

Pembina's Objectives and Strategy

Pembina's principal objective is to provide reliable returns to investors, in the form of distributions prior to the completion of the Corporate Conversion, and dividends thereafter, that are sustainable over the long-term, while pursuing opportunities for distribution or dividend (as applicable) enhancement through accretive growth. Pembina's business strategy is to generate value by providing customers with cost-effective reliable services. Pembina plans to diversify its asset base to enhance profitability in order to provide Pembina with the ability to respond to market conditions, reduce risk and increase opportunities to leverage existing businesses. A priority is placed on developing businesses that support Pembina's core competency – operating crude oil and NGL transportation systems – which allow for expansion, vertical integration and accretive growth. Pembina plans to implement growth in a safe and environmentally responsible manner. Growth is expected to occur through expansion of existing businesses, acquisitions of quality energy infrastructure and the development of new services. Pembina's investment criteria includes pursuing projects or assets that are located in close proximity to long life and economic hydrocarbon reserves and are expected to generate the increased cash flow that builds investor value.

Conventional Pipelines

The primary objective for Pembina's conventional pipelines business is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue enhancements. Margins are maintained through incremental volume capture and system expansion, revenue management and operating expense discipline. By offering cost effective, competitively positioned, safe and reliable transportation services to its customers, Pembina undertakes to attract new business to its conventional pipeline systems.

Oil Sands and Heavy Oil

Pembina has successfully leveraged its uniquely positioned infrastructure and construction oversight and operating knowledge in the oil sands and heavy oil areas of Alberta and intends to continue to pursue future opportunities in this key growth sector. Pembina's existing oil sands and heavy oil business, and those recently developed or under development, are characterized by fully contracted service and long-term returns which are designed to provide a secure stream of stable cash flow to the Fund. Operating income contribution from this business is related to invested capital and is not sensitive to fluctuations in operating expenses or actual throughputs. Furthermore, the life of these assets is effectively tied to the life of the oil sands and heavy oil reserves to which they provide service.

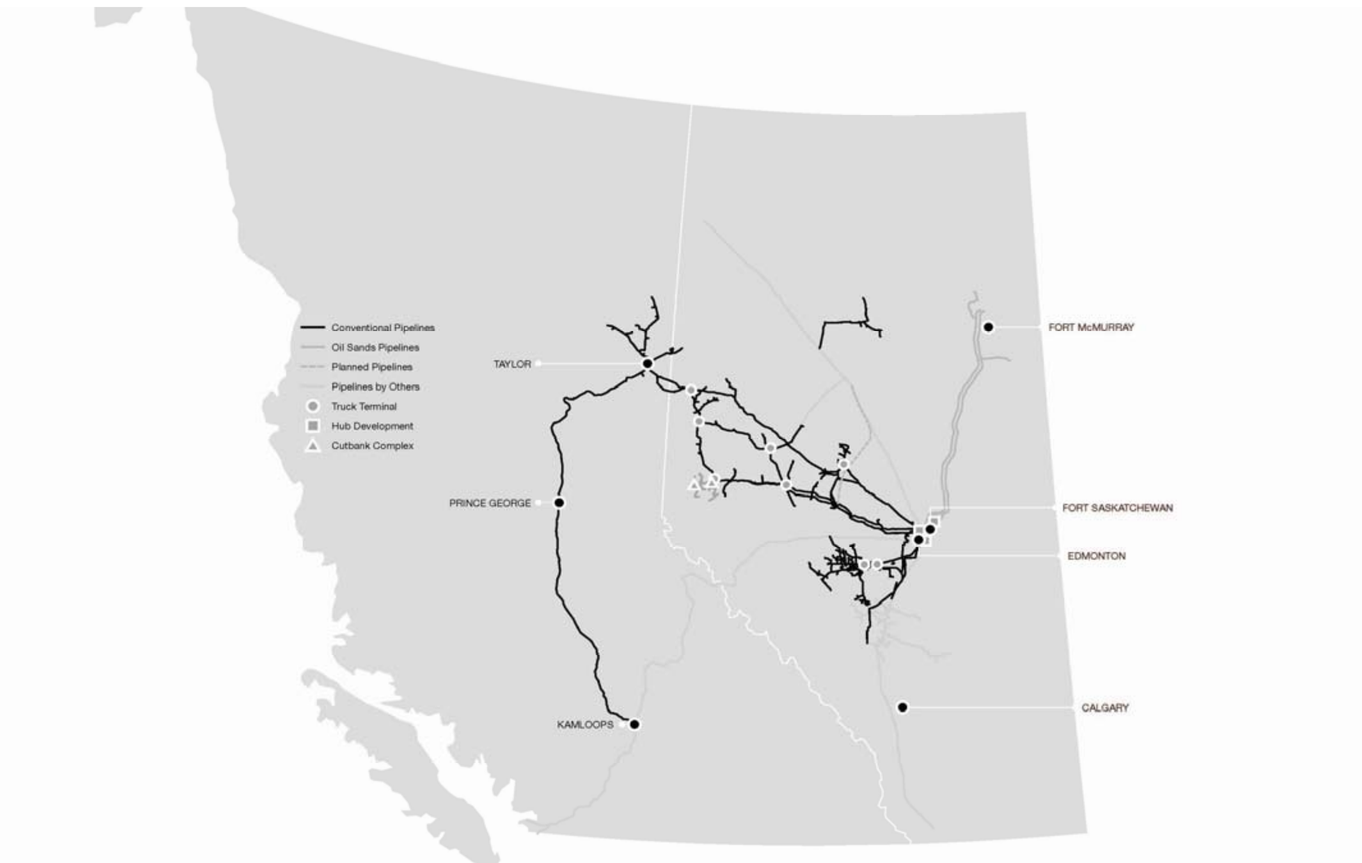
Due to the long-term and stable nature of these assets, further expansion of Pembina's business interests in this sector is a priority.

Midstream and Marketing

This business consists of the Cutbank Complex, a 50 percent non-operated interest in the Storage Facility and a network of terminals, storage facilities and hub services across its conventional pipelines business. By vertically integrating services along the hydrocarbon value chain, this business has increased the quality and range of services provided to customers and enhanced conventional throughputs. For these reasons, further expansion and diversification of Pembina's interests in this area is also a priority.

Overview

Pembina's business is structured into three key segments: (i) conventional pipelines; (ii) oil sands and heavy oil; and (iii) midstream and marketing. The following map illustrates Pembina's assets and certain planned expansions in the three business segments.



The revenue contribution from each of Pembina's three business segments in 2009 was divided as follows: (i) conventional pipelines contributed 51.3% of total revenue; (ii) oil sands and heavy oil contributed 23.2% of total revenue; and (iii) the midstream and marketing business contributed 25.5% of total revenue. The following table sets forth certain operating highlights for the business segments in 2009 and 2008.

2009 / 2008 Operating Highlights

	Conventional Pipelines		*Oil Sands and Heavy Oil*[2]		*Midstream and Marketing*		*Total*	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Average throughput (mbbls/d)	**393.3**	439.2	**775.0**	775.0	n/a	n/a	1,168.3	1,214.2
Net Revenue ($ million) [1]	**255.0**	263.4	**115.6**	85.4	**126.8**	105.1	497.4	453.9
Operating expenses ($ millions)	**104.6**	113.2	**34.0**	28.7	**20.6**	9.0	159.2	150.9
Net operating income ($ million)[1]	**150.4**	150.2	**81.6**	56.7	**106.2**	96.1	338.2	303.0

Notes:

(1) See "Non–GAAP Measures" on page 6.

(2) Revenue is contract based and independent of utilization rates, therefore volumes reported are contracted capacity.

Outlined below is a description of the operations of the conventional pipelines in Alberta and British Columbia, the oil sands and heavy oil and the midstream and marketing business. Additional information regarding Pembina's 2009 operational results and new developments and outlook is contained in the Fund's management's discussion and analysis for the year ended December 31, 2009, an electronic copy of which is available through the internet on the Fund's profile on the SEDAR website at www.sedar.com, or at www.pembina.com.

Conventional Pipelines

Alberta Pipelines

The Alberta Pipelines, a network of crude oil, condensate and NGL 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. Pembina's believes that its tolling arrangements allow it 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 373,956 bbls/d in 2009, compared to the 2008 average throughput of 416,673 bbls/d. The 10% decrease in throughput was largely due to the impact of falling commodity prices, high royalty rates and the economic downturn which led to a significant drop in exploratory and in-fill drilling. Pembina has scheduled two new connections for completion in 2010. Increased industry activity is becoming evident in 2010 and Pembina is in discussion with producers who anticipate rapid exploitation of these developments, particularly those in the Cardium formation in Alberta. Pembina anticipates these developments along with the scheduled new connections to bring additional volumes to the Alberta Pipelines in 2010.

The Alberta Pipelines generated revenue of $222.4 million in 2009, down from $224.3 million in 2008, a 0.8% decrease. Average revenue per barrel on the Alberta Pipelines of $1.60 in 2009 was up 13 cents per barrel compared to the average of $1.47 in 2008. Higher per barrel revenue on the Alberta Pipelines was largely attributable to higher tariffs implemented to offset volume declines but net of lower operating expenses passed through to customers.

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 Pipeline, which consists of three crude oil gathering pipelines upstream of Taylor, British Columbia (the Blueberry, B.C. Light and Boundary Lake pipelines) and the truck–unloading and pipeline terminal at Taylor, and the Western Pipeline (which delivers to Prince George, B.C. 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

Pipeline gathered an average of 23,762 bbls/d of crude oil and condensate in 2009, compared to 26,493 bbls/d in 2008. Volumes shipped on the NEBC Pipeline are directed either down the Western Pipeline, or east on the Peace Pipeline. The Western Pipeline transported an average of 19,294 bbls/d in 2009 compared to 22,573 bbls/d in 2008. The balance of 4,468 bbls/d of crude oil was shipped east on the B.C. Pipelines onto the Peace Pipeline into Edmonton and is included in the average throughput reported for Alberta Pipelines in 2009.

Revenue generated by the provincially–regulated B.C. Pipelines are rate–based or, in the case of Western Pipeline, governed by shipper agreements, and was $32.6 million in 2009, a 16.6 % decrease from 2008 revenue of $39.1 million. A portion of the reduction in revenue was related to lower operating costs which are flowed through to customers and were reduced in response to decreased throughput in the area. In 2008, Pembina reached toll settlements with its current shippers on the Western Pipeline and obtained the approval of the BCUC for these settlements.

Oil Sands and Heavy Oil

Pembina currently owns and operates three pipelines servicing the oil sands area in northeastern Alberta, with the Nipisi and Mitsue Pipelines currently under development. All of the oil sands and heavy oil pipelines are characterized by fully–contracted service and provide long–term returns which Pembina designed to produce a secure stream of stable cash flow. The agreements underlying the oil sands pipelines are effectively tied to the life of the oil sands and heavy oil reserves to which they provide service.

Syncrude Pipeline

The Syncrude Pipeline is comprised of a mainline and related facilities and has a single receipt point, being the Syncrude Project. The Syncrude Pipeline is the sole transporter for the Syncrude Project and has transportation capacity of 389,000 bbls/d.

Revenue on the Syncrude Pipeline is not dependant on throughput. Net operating income from this system was $30.4 million in 2009, a decrease from $40.2 million in 2008. This decrease is primarily the result of the sale of line fill in 2008.

Returns generated by the Syncrude Pipeline 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 the Syncrude Project's licenses, and the agreement is subject to extension. Pembina's rate of return on the Syncrude Pipeline is independent of throughput volume, as Pembina earns a rate of return on and of its depreciated capital investment and full operating cost recovery.

Cheecham Lateral

The construction of the Cheecham Lateral was completed in 2006 and became operational during the second quarter of 2007. This 56 kilometre 16-inch pipeline has a transportation service capacity of 136,000 bbls/d and delivers SCO from the Syncrude and Horizon Pipelines to other oil sands production facilities for use as diluent. The Cheecham Lateral is fully contracted to shippers and revenue is not dependant on throughput. The Cheecham Lateral contributed $4.6 million in net operating income during 2009, consistent with 2008.

Horizon Pipeline

On July 3, 2008, Pembina announced the successful completion of construction work for the Horizon Pipeline. Pembina began work on the $400 million project in November 2006, and all three phases of construction were completed on schedule. The Horizon Pipeline is comprised of a mainline and related facilities and has a single receipt point, being the Horizon Project.

Revenue on the Horizon Pipeline is not dependent on throughput. The Horizon Pipeline began earning revenue under an interim tolling arrangement in the third quarter of 2008, and began earning full toll revenues beginning

November 1, 2008. Net operating income from this pipeline was $46.6 million in 2009 compared to $11.9 million in 2008.

Returns generated by the Horizon Pipeline are governed by the terms of a long-term agreement with CNRL, the owner of the Horizon Project. The current term of the agreement runs until November 1, 2033, and is subject to extension. Pembina has the exclusive right to construct any expansions or extensions to the Horizon Pipeline. Pembina's rate of return on the Horizon Pipeline is independent of throughput volume, as Pembina earns a fixed rate of return on invested capital and full operating cost recovery.

Midstream and Marketing

Pembina's midstream and marketing business is designed to capture the inherent value embedded in its existing infrastructure assets. It represents a vertical integration of Pembina's pipeline business through marketing, storage, terminalling and hub services. Midstream services are now offered on the Drayton Valley Pipeline, the Swan Hills Pipeline and through truck terminals on the Peace Pipeline. In 2009, the midstream and marketing business unit contributed $126.8 million in revenue, up $21.7 million from 2008. Total net operating income generated by the midstream and marketing business in 2009 was $106.2 million, up $10.1 million from 2008. See "Non–GAAP Measures".

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.

Dow Canada and NOVA Chemicals are the Storage Facility's principal customers (collectively, the "**Customers**"). The Customers are party to the Storage Agreement which, after its expiry, is 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 based 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.

Cutbank Complex

The Cutbank Complex was acquired by Pembina on June 2, 2009 from Talisman Energy Canada. See "General Development of the Fund – Developments in 2009 – Midstream and Marketing – Acquisition of the Cutbank Complex".

Located 80 kilometres south of Grande Prairie in west central Alberta, the Cutbank Complex is an interconnected sweet gas gathering and processing complex consisting of 3 gas plants (the Cutbank Plant, the Musreau Plant and the Kakwa Plant), 9 compressor stations and over 300 kilometres of gathering pipeline systems. The Cutbank Complex can capture gas from over a 2,300 square kilometre area, including such fields as Bilbo, Caw, Chicken, Chime, Cutpick, Kakwa, Lynx, Musreau, Red Rock and Karr. The Cutbank Gas Plant, Musreau Gas Plant and Kakwa Gas Plant process sweet gas and have an aggregate raw gas processing capacity of 360 mmcf/d (305 mmcf/d net to Pembina). For the year ended December 31, 2009, gross average daily throughput was 212 mmcf/d, representing a 59% utilization rate and for the year ended December 31, 2008, gross average daily throughput was 242 mmcf/d, representing a 68% utilization rate. The Cutbank Gas Plant and the Musreau Gas Plant are operated by Pembina and the Kakwa Gas Plant, in which Pembina owns a 50% interest, is operated by EnCana Corporation. Collectively, the Cutbank Complex constitutes a network that is positioned in each individual operating area to serve drilling and production activities.

Revenue from the Cutbank Complex is derived primarily through the charging of capital fees and a recovery of operating costs for the processing, transportation and compression of sweet gas. Producers are generally charged a compression, gathering and processing fee that varies based upon a number of factors, including where the gas enters the associated gathering pipeline, the volume of gas, the composition of gas and the term of an agreement. Certain contracts may also contain payment terms for natural gas liquids extracted. Operating expenses, including certain general and administrative and environmental costs, are largely treated as a flow through to producers. Producers are billed on a monthly basis and quarterly adjustments are made, followed by a 13 month adjustment at the end of the year. The gathering and processing contracts also contain a provision whereby Pembina can recover its related overhead based on its operating costs, as calculated by Pembina, acting reasonably. See " – Contractual Arrangements – Cutbank Complex".

In the seven months of 2009 that Pembina owned and operated the Cutbank Complex, the facility contributed $23 million to net operating income.

Midstream and Marketing

In 2009, Pembina further expanded the scope of its midstream and marketing business as it developed two new pipeline hubs, added facilities to the existing truck terminals on the Peace Pipeline, and had a full year of operations at a truck terminal on the Drayton Valley Pipeline and the full service terminal at LaGlace, Alberta. In 2010, Pembina will begin expanding its hub at Cloverbar, which is expected to come on-stream in early 2011.

Also in 2010, Pembina will be completing a comprehensive analysis of its power load and develop a forward strategy to manage power costs. The hedging program will be tailored to the requirements of each business unit and will take advantage of the combined load and operational flexibility of the facilities, as well as any aggregate load levelling potential.

For additional information on Pembina's midstream and marketing business, see "General Development of the Fund – Developments in 2009 – Midstream and Marketing".

Information and Communication Systems

Pembina employs SCADA technology on all of its pipeline systems. The SCADA systems 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 performed automatically by the system and alarms are triggered when imbalances are detected or measured pressures do not match those projected by software models.

During 2009, 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 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 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, reliability and longevity through the entire pipeline lifecycle. Integrity management begins at the engineering and design phase with quality specifications/standards during pipe manufacturing, selection and application of high quality coatings to protect 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.

Proactive 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. As part of Pembina's ongoing corrosion management program, 27 pipeline segments were inspected in 2009, and second crack tool inspections of portions of the Peace Pipeline (LaGlace to Fox Creek) and the Western Pipeline (Taylor to Prince George) were completed, representing approximately 18% of Pembina's operating pipeline systems. Most excavation and repair activities associated with these inspections were completed in 2009, with some non–critical maintenance activities and larger projects carrying over into 2010. Approximately 45 line segments are scheduled for inspection in 2010.

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 Pipeline (Taylor to Kamloops), portions of the Peace Pipeline (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, the 16-inch NGL line from Judy Creek to Edmonton and on the 22-inch Horizon Pipeline. Data from initial and secondary inspection is analyzed by Pembina and third party technical experts, in conjunction with pipeline pressure data, 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 five year 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 2008, after a severe flooding event, Pembina incurred a pipeline leak of an estimated 75–125 barrels of light sweet crude oil into the Red Deer River, approximately five kilometres north of Sundre, Alberta and approximately thirty kilometres south of Gleniffer Lake, Alberta. Pembina incurred approximately $3 million in expenditures on the containment and clean–up of this spill in 2008 and $0.3 million in 2009. Pembina also discovered a pinhole release near the town of Lodgepole, Alberta in 2008. Assessment and remediation work is ongoing and Pembina has currently expended approximately $4.2 million in relation to this site ($1.5 million in 2009). Pembina expects that a substantial portion of the expenditures of the Red Deer River spill will be recoverable from insurance.

In addition to the approximately $1.8 million in expenditures on the Red Deer River and Lodgepole spill sites, Pembina spent approximately $1.85 million on other existing spill sites in 2009. Pembina also spent approximately $220,000 on yearly environmental programs, monitoring, and audits and approximately $500,000 on the update and maintenance of Pembina's Emergency Response Planning.

Pembina believes annual environmental expenditures in the $4 million to $6 million range will adequately address reclamation and environmental issues (including in respect of the existing spill sites), some of which Pembina expects will be recoverable from insurance.

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 estimated 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 of the asset upon the retirement. The estimated fair value is recorded as a long–term liability, with a corresponding increase in the carrying value 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 conventional 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.

The major shippers on Pembina's oil sands pipelines are CNRL and Syncrude (see "Description of Pembina's Business and Operations – Overview – Oil Sands and Heavy Oil") and the major customers at the Storage Facility are Dow Canada and NOVA Chemicals (see "Description of Pembina's Business and Operations – Overview – Midstream and Marketing – Ethylene Storage").

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 Pipeline and/or the Northern Pipeline. Other examples of competing pipelines are the Rainbow Pipeline and the Rangeland Pipeline which both compete with Pembina's pipelines both north and south of Edmonton, Alberta.

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 or the AUC, as applicable, 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 or the AUC, as applicable, 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 or the AUC, as applicable, has the authority to set rates for the pipeline. No pipeline owned by Pembina in the province of Alberta has ever been declared to be a common carrier. Tariffs for all of Pembina's Alberta Pipelines are generally established to recover all costs and earn a reasonable rate of return on the investment in its pipelines. On the oil sands pipelines, tariffs are calculated subject to longer term contracts which provide for payment of the tariff regardless of use of the system. The shippers on the Syncrude Pipeline, the Horizon Pipeline and the Cheecham Lateral have agreed not to apply to the Alberta regulator to review tariffs during the term of their agreements.

In British Columbia the tariffs on the NEBC Pipeline and the Western Pipeline are regulated by the BCUC. The BCUC approves tariffs for common carriers and regulates others on a complaints basis. In 2008, Pembina reached toll settlements with its current shippers on the Western Pipeline and obtained the approval of the BCUC for these settlements. In 2009, the BCUC approved a toll increase on the Taylor to Kamloops portion of the Western System. The toll settlements, which are effective until February 29, 2012, represent a collaborative agreement between Pembina and its shippers and include an incentive for the shippers to continue using the Western Pipeline. Pembina believes that the agreed upon tolls will provide it with a reasonable return on its capital and reimbursement of its operating expenses. See " – Overview – Conventional Pipelines – B.C. Pipelines".

Small portions of the Peace Pipeline, the Northern Pipeline and the NEBC Pipeline 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.

Contractual Arrangements

Transportation and Storage

There are a number of service contracts on Pembina's pipeline systems. On the Syncrude Pipeline, Pembina has a contract to ship Syncrude Project production until 2035 and is currently the sole transporter of SCO produced from 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 on throughputs. This contract automatically extends beyond 2035 if Syncrude's operating permit is extended. See " – Overview – Oil Sands and Heavy Oil – Syncrude Pipeline". 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. See " – Overview – Oil Sands and Heavy Oil – Cheecham Lateral". On the Horizon Pipeline, Pembina has a contract to ship Horizon Project production until 2033, subject to extension, and has exclusive rights to construct any expansions or extensions to this pipeline. This contract provides for a fixed rate of return on current and future invested capital and is not dependant on throughputs. See " – Overview – Oil Sands and Heavy Oil – Horizon Pipeline". In 2008, Pembina negotiated a toll settlement on the Western Pipeline with its shippers, which is effective until the end of February, 2012. This contract provides Pembina with revenue certainty and incents the current shippers to continue using the Western Pipeline. See " – Industry Regulation and Tariffs" and " – Overview – Conventional Pipelines – B.C. Pipelines". Pembina also has contracts in place for the Storage Facility described above under " – Overview – Midstream and Marketing – Ethylene Storage". The proposed Nipisi and Mitsue Pipelines are also fully contracted over an initial 10 year term from the in–service date, with extension rights. The Nipisi and Mitsue TSAs provide for committed ship–or–pay throughput. The tolls on these pipelines provide for a fixed capital component charge and a flow through of operating expenses. See "General Development of the Fund – Developments in 2009 – Oil Sands and Heavy Oil – Nipisi and Mitsue Pipelines". See also "Risk Factors – Risks Inherent in Pembina's Business".

Cutbank Complex

As part of its acquisition of the Cutbank Complex in 2009, the Fund indirectly took assignment of approximately 65 gathering and processing contracts with area producers. Under the contractual arrangements associated with the Cutbank Complex, Pembina is not directly exposed to the impact of market fluctuations in the price of natural gas and NGLs. The gathering and processing business is based on charging fees to customers on the volume of raw gas that is gathered and/or processed through its facilities and the fees are based on a fixed fee methodology. The processor has flexibility to tailor the fees it charges customers to capitalize on market conditions and to meet different levels of services. In the case of raw gas processing fees, the fee is usually based on the composition of the raw gas stream being processed and the level of competition in the area.

The contracts associated with the Cutbank Complex are comprised of a mixture of firm and interruptible service contracts of varying durations. A number of the firm service contracts contain provisions dedicating specified areas of gas reserves to the Cutbank Complex facilities, which in turn provides some assurance that a substantial portion of natural gas produced from reserves developed in these areas will be processed at the Cutbank Complex. The contractual fee structure incorporates a capital fee based on functional unit usage, and nearly all of the contracts include provisions for the recovery of operating costs, including overhead and certain environmental costs.

Over 50% of the capacity associated with the Cutbank Complex is on a firm service basis until 2014. Several of the firm service contracts incorporate a "take or pay" or "produce or pay" commitment which allows the processor to manage capacity utilization and revenue risk. In 2009, approximately 61% of revenue from the Cutbank Complex was derived from contracts containing "take or pay" commitments.

Power

Power is a significant component of the cost of operations, constituting approximately 14% of total operating expenses for PPC in 2009. 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. At the request of its customers, Pembina does not currently hedge power costs on its oil sands and heavy oil pipelines and power costs are flowed through to the shippers of these systems.

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 and pipelines at 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 for 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, 2009, Pembina employed 427 personnel in its pipeline operations, of which 275 were engaged in the performance of field operations and superintendence activities, and 152 were engaged in the performance of facilities engineering, systems, management, finance, accounting, administration, human resources, information services, drafting, business development and safety and environmental service activities. 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, natural gas and NGLs.

Bitumen occurs naturally in oil sands and once recovered and processed to separate the bitumen from the oil sands, produces SCO. Bitumen may be recovered in two ways. Approximately 20% of bitumen in Alberta occurs in oil sands near enough to the surface that it can be mined and moved by trucks to a cleaning facility. The remaining 80% of Alberta's oil sands must be extracted using a variety of in–situ processes. These in–situ processes use steam, solvents or thermal energy to allow the bitumen to be pumped to the surface. Because bitumen is so viscous, it requires dilution with lighter hydrocarbons to make it transportable by pipelines.

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 and 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 and 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 734,035 bbls/d of petroleum products. These pipelines primarily transport product from established production fields in their respective service areas, the Syncrude Project or the Horizon 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. The Cheecham Lateral transports SCO from an existing pump station on the Syncrude Pipeline to a terminalling facility located near Cheecham, Alberta, where it is then used as diluent for oil sands projects in the area.

Gas Gathering and Processing

The Cutbank Complex is located in the heart of the Alberta Deep Basin natural gas region, one of the most active exploration areas in the Western Canadian Sedimentary Basin. Pembina believes that the competitive development cost structure of this region, in combination with its excellent supply potential, make this an attractive area for development, even in challenging commodity price environments. This region also has the capability to produce large quantities of NGLs, which can be transported to market through Pembina's Peace Pipeline. In 2010, Pembina plans to examine options to expand the Cutbank Complex to increase the processing of NGLs.

Export Liquids Pipeline Systems

The export liquids pipelines originating in the Edmonton and Fort Saskatchewan area are the Kinder Morgan Pipeline, the Enbridge Pipeline 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. Crude oil and refined products delivered to eastern Canada and the northern United States are transported through the Enbridge Pipeline. NGLs delivered to eastern Canadian and export markets are transported through the Enbridge Pipeline 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 exploration activity within its service areas, will maintain the future utilization of its existing feeder pipeline systems.

Carbon Capture and Sequestration

In 2009, the Alberta government announced it will commit approximately $2 billion in funding towards the development of carbon capture and sequestration projects. Use of captured carbon dioxide ("**CO_2**") in enhanced oil recovery has the potential to increase recovery of original oil in place by as much as 15 to 20 percent. As CO_2 flooding may be used to enhance oil recovery in mature fields such as Drayton Valley, Swan Hills and Redwater, Pembina believes it is uniquely positioned to capture increased production that could result from these CO_2 floods, if implemented in such areas.

Pembina believes that its existing infrastructure provides strategic advantages for entering the CO_2 transportation business as Pembina's existing rights of way enable cost-effective development of CO_2 pipelines while its strategic access to Edmonton's refinery right of way allows for a take away of source CO_2. In addition, CO_2 flooding enhances oil recovery in mature fields, which would extend the life of Pembina's conventional pipeline assets and enable Pembina to develop unique commercial arrangements with CO_2 users.

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 profile on the SEDAR website 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 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 of 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 and 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 Capital Structure and Securities".

Investments of the Fund

The Fund is restricted to investing in any securities or property comprising or relating to pipelines 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.

Cash Distributions

The amount of annual cash distributions to the Unitholders 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 25^{th} of each month, except for December for which the Record Date is December 31) 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 Date**"); 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 during the ten day period commencing immediately after the Redemption Date, 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 Capital Structure and Securities – Market Value of Trust Units and other 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 down to the next 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 Capital 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 directly or indirectly wholly–owned subsidiaries of PPC;

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

(vi) 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 the following:

(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. On March 16, 2010, Pembina announced that is was suspending the Plan effective April 25, 2010 and, as such, the optional equity and premium cash payments under the Plan will not be available to Unitholders in respect of cash distributions starting with the distribution payable in respect of the April 25, 2010 record date. Pembina took this action based on the strength of Pembina's balance sheet and the Fund's view that it does not require further equity investment at this time. Pembina believes it has the ability to fund currently planned capital expenditures and may resume the Plan in the future should it be required to fund new investing or financing activities. 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. For additional information, see "Investors – DRIP" on the Fund's website at www.pembina.com.

Convertible Debentures

On June 19, 2003, the Fund issued $220.0 million of Convertible Debentures maturing on December 31, 2010. The Convertible 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 Convertible Debentures by issuing Trust Units. The Fund can elect to pay interest on the Convertible Debentures by issuing Trust Units. As at December 31, 2009, $38.3 million principal amount of these Convertible 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 9 to the Fund's audited consolidated financial statements for the year ended December 31, 2009.

Credit Ratings

Dominion Bond Rating Service Limited

DBRS Limited's ("**DBRS**") stability rating system measures the stability and sustainability of distributions per Trust Unit. DBRS has assigned Pembina Pipeline Income Fund a STA-2 (low) stability rating which was confirmed by DBRS on May 13, 2009. Pembina Pipeline Corporation (PPC), the Fund's primary operating subsidiary, is also rated by DBRS, which assigned a senior debt rating of "BBB (high)" with a stable trend to PPC on November 3, 2009.

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 provide 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**"), which was last confirmed on November 20, 2009. On December 22, 2009, Standard & Poor's (S&P) confirmed its long-term corporate credit and bank loan ratings on PPC of "BBB+", and its senior secured debt rating on the company of "A-", was last confirmed on August 11, 2009, all with a stable outlook.

The A rating is the third highest rating, and the BBB rating is the fourth highest rating, of S&P's ten rating categories for long–term debt which range from AAA to D. 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.

Issues of debt rated A are judged by S&P to be somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher–rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still viewed by S&P to be strong.

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.

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 currently owns, directly and indirectly, 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 current 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 Capital Structure and Securities – Debt Service" and "Risk Factors – Risks Relating to Capital 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

Pembina's credit facilities as at December 31, 2009 consisted of an unsecured $500 million revolving credit facility due July 2012 and the unsecured $150 million non-revolving Bridge Credit Facility due December 2010 which was used to partially fund Pembina's acquisition of the Cutbank Complex in the second quarter of 2009. In addition, Pembina has an operating facility of $50 million, which matures July 2010 and a $75 million senior unsecured non-revolving term facility due 2014. As at December 31, 2009, Pembina had approximately $359 million of drawn bank debt (including letters of credits of $9 million). Borrowings on Pembina's main facilities bear interest at either prime lending rates or bankers' acceptances, plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of PPC and range from zero percent to 2.75 percent. See "General Development of the Fund – Developments in 2009 – Other Matters – Credit Facilities".

Other debt at December 31, 2009 included $175 million in fixed rate Unsecured Senior Notes due 2014, $73.4 million in fixed rate Secured Senior Notes due 2017, $200 million in fixed rate unsecured Series C Senior Notes due 2021 and $267 million in fixed rate unsecured Series D Senior Notes due 2019.

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, 2009 and in Note 8 to the audited consolidated financial statements of the Fund for the year ended December 31, 2009. See "Risk Factors – Risks Relating to Capital Structure and Securities – Debt Service".

Capital Expenditures

PPC may approve and fund capital expenditures, however, all capital expenditures in excess of $15 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 Capital 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.

While the risk factors provided below are generally drafted in a manner to address the risks associated with Pembina's business as such is currently structured, readers should be aware that substantially the same risks will be faced by PPC and its subsidiaries following completion of the Corporate Conversion, except for those risks that related solely to income trusts (such as those detailed under the headings "Taxation of Income Trusts", "Nature of Trust Units", "Unitholder Limited Liability" and "Redemption Right"). In addition, any risks related to the ability of Pembina to make cash distributions to Unitholders should also be viewed as risks to the ability of PPC to pay dividends to its shareholders following the completion of the Corporate Conversion. Additional risk factors relating the Corporate Conversion and PPC will be contained in the 2010 Information Circular.

Risks Relating to the Corporate Conversion

Conditions Precedent and Required Regulatory and Third Party Approvals

The completion of the Corporate Conversion in the form currently contemplated will be subject to a number of conditions precedent, some of which are outside the control of Pembina, including, without limitation, receipt of Unitholder approval, the approval of Pembina's and PPC's lenders and regulatory approvals (including approval of applicable stock exchange listings and approval from the Court). There can be no certainty, nor can Pembina provide any assurance, that these conditions will be satisfied or, if satisfied, when and on what terms they will be satisfied. If the Corporate Conversion is not completed as currently contemplated, or at all, the market price of the Trust Units may be adversely affected.

Dilution of PPC Shareholders

Following completion of the Corporation Conversion, PPC will be authorized to issue, among other classes of shares, an unlimited number of PPC Shares for consideration and on terms and conditions as established by the board of directors of PPC without the approval of shareholders in certain instances. The shareholders of PPC (who will be former Unitholders, assuming the Corporate Conversion is completed) will have no pre-emptive rights in connection with such further issues.

Risk Factors Relating to the Activities of PPC and the Ownership of PPC Shares

The following is a list of certain risk factors relating to the activities of PPC and the ownership of PPC Shares by former Unitholders following completion of the Corporate Conversion:

- the level of PPC's indebtedness from time to time could impair PPC's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise;
- the uncertainty of future dividend payments by PPC and the level thereof as PPC's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, operating cash flow generated by PPC and its subsidiaries, financial requirements for PPC's operations and the execution of its growth strategy and the satisfaction of solvency tests imposed by the ABCA for the declaration and payment of dividends;
- PPC may make future acquisitions or may enter into financings or other transactions involving the issuance of securities of PPC which may be dilutive;

- the inability of PPC to manage growth effectively, and realize the anticipated growth opportunities from reorganizing the Fund into a corporate structure, could have a material adverse impact on its business, operations and prospects; and

- the risk that the market value of the PPC Shares may materially deteriorate if PPC is unable to meet its cash dividend targets or make cash dividends in the future.

Unitholders are encouraged to obtain independent legal, tax and investment advice in their jurisdiction of residence with respect to this Annual Information Form, the consequences of the Corporate Conversion and the holding of Trust Units and PPC Shares.

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 cost 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 and Marketing – Commercial Operations

Pembina's midstream and marketing commercial operations include gas processing, product storage terminalling and hub services. 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, general economic conditions, changes in crude oil markets and other factors. Pembina manages its risk exposure by balancing purchases and sales to lock–in margins. Notwithstanding Pembina's management of price and quality risk, marketing margins for crude oil can vary and has varied significantly from period to period and this could have an adverse effect on the results of Pembina's commercial midstream and marketing 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 or the AUC, as applicable, 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 (see "Description of Pembina's Business and Operations – Pipeline Environmental Incidents") could be greater than Pembina currently anticipates, and any such differences could be substantial. If Pembina is 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 and Pembina's other debt obligations could 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 and Pembina's other debt obligations.

Reserve Replacement and Throughput

Pembina's conventional pipeline tariff revenues are based upon a variety of tolling arrangements, including ship–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. As oil and gas reserves are depleted, production costs may increase relative to the value of the remaining reserves in place, causing producers to shut–in production or seek out lower cost alternatives for transportation. Given the current adverse global economic conditions throughout 2009, the demand for and prices of these products have decreased substantially from their historically high levels during the summer of 2008 and the risks to Pembina that producers will not seek reserves additions has heightened. If the level of tariffs collected by Pembina decreases as a result, cash flow available to make cash distributions to

Unitholders and to service obligations under the Convertible Debentures and Pembina's other debt obligations could be adversely affected.

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, and gas processing and gathering infrastructure in which Pembina has an interest. As noted above, recent global economic events have had a substantial downward effect on the demand for and prices of such products and Pembina cannot predict the impact of future economic conditions on the energy and petrochemical industries or future demand for and prices of crude oil, condensate, NGLs and natural gas. Future prices of these products 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.

Completion of the Nipisi and Mitsue Pipelines

The Nipisi and Mitsue Pipelines are currently under development by Pembina and the successful completion of these pipelines is dependent on numerous factors outside of Pembina's control. These factors include gaining the support and approval of varied groups of stakeholders and regulatory boards, which, at the current time, Pembina has no reason to believe will not be received in due course. Under the agreements governing the construction and operation of the Nipisi and Mitsue Pipelines, Pembina is obligated to construct the pipelines and Pembina bears the risk for any cost overruns. While Pembina is not currently aware of any significant cost overruns at the date hereof, any such cost overruns in the future could reduce Pembina's expected return on the Nipisi and Mitsue Pipelines and adversely affect Pembina's results of operations which, in turn, could reduce the level of cash distributed to Unitholders. See " – Risks Relating to Capital Structure and Securities – Additional Financing and Capital Resources".

Possible Failure to Realize Anticipated Benefits of Acquisitions

As part of its ongoing strategy, Pembina has completed acquisitions, such as the acquisition of the Cutbank Complex, and may complete additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as PPC's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of PPC. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect PPC's ability to achieve the anticipated benefits of any acquisitions.

Effect of the Alberta Royalty Framework on Customer Operations in Alberta

Over the past few years, the Alberta Government has announced several revisions to the royalty rates applicable to oil and gas operations in Alberta. While it now appears that the Alberta Government may be generally reverting to the royalty rates which were in effect prior to institution of such changes, other than in respect of operations in Alberta's oil sands area, these changes have created uncertainty for producers and may have led such producers to reduce or reallocate their capital spending programs. Even though Pembina does not own any producing properties, the changes may indirectly impact its results if producers and shippers operating in areas serviced by Pembina have taken or decide to take actions, such as reducing capital programs or curtailing volumes shipped.

Competition

Pembina is subject to competition from other pipelines and midstream and marketing 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 and earlier in the event that the Corporate Conversion is completed as planned on July 1, 2010, or some other date no later than December 31, 2010 (assuming Pembina does not violate the "normal growth" safe harbour provisions prior to such time). Pembina's proposed bids for Canadian corporate and asset acquisitions may be affected and adjusted for the impact of the SIFT Tax as well as the uncertainty in respect of the timing and completion of the Corporate Conversion, 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 or which certain business currently operating under a corporate structure do. The SIFT Tax and the completion of the Corporate Conversion 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 and Processing Contracts

As described above, throughput on certain of Pembina's pipelines (in particular, the Syncrude Pipeline, the Horizon Pipeline, the Cheecham Lateral, the Nipisi and Mitsue Pipelines and the Western Pipeline) is or will be governed by transportation contracts or tolling arrangements with various producers of petroleum products. In addition, Pembina is indirectly a party to numerous gathering and processing contracts of varying durations in respect of the Cutbank Complex. 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. Furthermore, the contracts associated with the Cutbank Complex are comprised of a mixture of firm and interruptible service contracts and the revenue that Pembina earns on the contracts which are based on interruptible service is dependent on the volume of natural gas and NGLs produced by producers in the relevant geographic areas and lower than historical production volumes in these areas (for reasons such as low commodity prices) may have an adverse effect on the revenues Pembina receives from the Cutbank Complex. See "Description of Pembina's Business and Operations – Overview – Oil Sands and Heavy Oil", "Description of Pembina's Business and Operations – Overview – Conventional Pipelines – B.C. Pipelines", "Description of Pembina's Business – Contractual Arrangements" and "Description of Pembina's Business and Operations – Industry Regulations and Tariffs".

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 in the Storage Facility 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 elsewhere on the jointly–owned property to address the possible situation where one or both of the remaining caverns do not pass the MIT. 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 and could potentially decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures and Pembina's other debt obligations.

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 89% of the usage of the Storage Facility in 2009. 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 Fund and the ability of the Storage LP to operate the Storage Facility could be negatively affected. This, in turn, could decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures. 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

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.

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 Capital Structure and Securities

Additional Financing and Capital Resources

The timing and amount of capital expenditures of Pembina, and the ability of Pembina to repay or refinance existing debt as it becomes due, 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, other capital expenditures, including the capital expenditures that Pembina has committed to in respect of the proposed Nipisi and Mitsue Pipelines, and the repayment or refinancing of existing debt as it becomes due will be financed from sources such as cash generated from operations, the issuance of additional Trust Units or other securities (including debt 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 on favourable terms or at all due to credit market conditions or otherwise, the ability of Pembina to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt 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 or to repay existing debt as it becomes due, the level of cash distributions to Unitholders of the Fund may be reduced.

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 – Change 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. The announcement of the SIFT Tax is also what lead to the decision to proceed with the Corporation Conversion. See "General Development of the Fund – Developments in 2009 – Corporate Conversion". In particular, as result of the SIFT Tax:

- the Fund (or the corporate entity following the Corporate Conversion) will be required to pay taxes, or higher amounts of taxes, in the future or in years earlier than it would have prior to the SIFT Tax becoming law, which could decrease the amount of cash distributions available to equityholders; 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 (including as a result of the uncertainty existing in respect of the completion of the Corporate Conversion). As a result, it may become more difficult for Pembina to compete effectively for acquisition opportunities.

Additionally, as described under "General Development of the Fund – Change 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 (being the period ending at the earlier of the completion of the planned Corporate Conversion and 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 during that period. 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.

Debt Service

PPC and the Fund's other subsidiaries are permitted to borrow funds to finance the purchase of pipelines 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 for which Pembina may not be able refinance at favourable rates or at all, could result in significant changes in the amount required to be applied to service debt 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. See " – Additional Financing and Capital Resources". 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 2 to the Fund's audited consolidated financial statements for the year ended December 31, 2009. 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 Unitholders 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, the failure of Pembina's customers to meet their obligations under their respective agreements (including as a result of the customer's insolvency), 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.

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, including in respect of the construction of the Nipisi and Mitsue Pipelines, 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 " – 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

Prior to the completion of the Corporate Conversion, 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 until completion of the Corporate Conversion, 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 (other than a tax-free savings account) 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 the case of a tax-free savings account, a tax of 50% of the fair market value of the Trust Units and/or Convertible Debentures will be payable at the time they cease to be qualified. 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 " – Taxation of Income Trusts" and " – Changes in Legislation" above and "General Development of the Fund – Change to Taxation of Income Trusts".

In addition if Trust Units and/or Convertible Debentures held by a trust governed by a tax-free savings account are "prohibited investments" with respect to such account, the holder of the tax-free savings account will be subject to a penalty tax as set out in the Tax Act. A "prohibited investment" includes an interest in a trust which does not deal at arm's length with the holder, or an interest in a trust in which the holder has a "significant interest" (within the meaning of the Tax Act) or which does not deal at arm's length with a corporation, partnership or trust in which the holder has a "significant interest".

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 25th day of each month, except for December which the Record Date is December 31) are, to the extent declared by the PPC Directors, entitled to receive monthly cash distributions from the Fund which will be paid on or about 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 Capital Structure and Securities – Variability of Cash Distributions", "Risk Factors – Risks Relating to Capital 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). Pembina’s distributions are subject to current domestic tax laws which require a withholding tax from distribution income to non-residents of Canada.

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 four fiscal years. The historical distribution payments described below may not be reflective of future distribution payments.

Month of Payment Date	Cash Distribution Per Trust Unit 2009	2008	2007	2006
January	$0.13	$0.12	$0.11	$0.095
February	$0.13	$0.12	$0.11	$0.095
March	$0.13	$0.12	$0.11	$0.095
April	$0.13	$0.12	$0.11	$0.095
May	$0.13	$0.12	$0.11	$0.095
June	$0.13	$0.12	$0.11	$0.095
July	$0.13	$0.12	$0.11	$0.095
August	$0.13	$0.12	$0.11	$0.095
September	$0.13	$0.13	$0.12	$0.100
October	$0.13	$0.13	$0.12	$0.100
November	$0.13	$0.13	$0.12	$0.100
December	$0.13	$0.13	$0.12	$0.100
Total	$1.56	$1.48	$1.36	$1.165

In January of 2010, a distribution of $0.13 per Trust Unit was paid to Unitholders and in each of February and March of 2010, a distribution of $0.13 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 2009.

Month	High ($)	Low ($)	Close ($)	Volume
January	15.79	13.63	14.25	5,147,323
February	14.73	13.01	14.48	4,277,444
March	14.79	11.68	13.98	6,899,311
April	14.24	12.88	13.45	6,583,693
May	14.37	13.35	14.01	8,614,756
June	15.56	14.07	14.86	8,627,926
July	15.69	14.00	15.10	8,099,871
August	15.68	14.90	15.46	5,260,948
September	15.47	14.98	15.40	7,083,194
October	16.25	15.05	15.62	8,101,193
November	16.95	15.20	16.62	6,926,919
December	17.85	16.36	17.52	4,614,139

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 2009.

Month	High ($)	Low ($)	Close ($)	Volume
January	121.60	107.10	111.50	1,540
February	117.00	107.64	115.00	4,010
March	117.00	97.00	115.89	7,860
April	113.00	105.00	112.00	3,450
May	114.50	108.00	113.27	2,010
June	122.33	108.29	118.60	4,420
July	124.16	115.18	120.00	2,650
August	124.10	118.54	121.88	8,800
September	123.12	116.10	123.00	1,280
October	128.78	115.06	127.37	3,550
November	132.00	121.44	131.79	7,110
December	140.94	131.02	140.00	5,310

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; in September 2006, PPC issued, on a private placement basis, $200 million in Series C Senior Notes due 2021 and in November 2009, PPC issued, on a private placement basis, $267 million in Series D Senior Notes due 2019. The Senior Notes are not publicly traded. See Note 8 to the Fund's audited consolidated financial statements for the year ended December 31, 2009 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[(4) (6)] Calgary, Alberta, Canada	May 3, 2001	Independent businessman
Allan L. Edgeworth[(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)(2)(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
Douglas J. Haughey[(2) (3)] Calgary, Alberta Canada	December 17, 2008	President and Chief Executive Officer of WindShift Capital Corp. Formerly President and Chief Executive Officer of Spectra Energy Income Fund
Myron F. Kanik[(3)(5)] Qualicum Beach, British Columbia, Canada	October 24, 1997	Independent businessman
Robert B. Michaleski Calgary, Alberta, Canada	January 4, 2000	President and Chief Executive Officer of PPC
Leslie A. O'Donoghue[(2)(4)] Calgary, Alberta, Canada	December 17, 2008	Chief Legal Officer and Senior Vice President, Business Development of Agrium Inc.
Robert F. Taylor[(2)(5)] Edmonton, 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. David A. Bissett has indicated that he intends to retire from the board of directors and will not be standing for re-election at the next annual meeting of Unitholder to be held on May 7, 2010.

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. On October 28, 2009, the Board approved the independent election of directors standing for election at the 2010 annual meeting of Unitholders.

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 in Appendix "F" to the 2010 Information Circular which is entitled "Statement of PPC Compensation and Corporate Governance Practices".

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, Chief Operating Officer	Vice President, Chief Operating Officer of PPC since November 2008; prior thereto, Vice President, Business Development of PPC since March 2005.
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
Glenys E. Hermanutz Calgary, Alberta, Canada	Vice President, Corporate Affairs	Vice President, Corporate Affairs of PPC since November 1, 2006; prior thereto Manager, Corporate Development of PPC since 2004, Manager, Investor Relations of PPC from 1997 to 2004
Barbara S. Jack Calgary, Alberta, Canada	Vice President, Human Resources	Vice President, Human Resources of PPC since November 2008; prior thereto Manager, Human Resources of PPC since 1993
Sam Stephenson[(1)] Calgary, Alberta, Canada	Vice President, Engineering and Operations	Vice President, Engineering and Operations of PPC since November 2008; prior thereto, Senior Manager, Engineering of PPC since November 2006; prior thereto Manager, Engineering of PPC since November 2003
Robert M. Jones Calgary, Alberta, Canada	Vice President, Midstream and Marketing	Vice President, Midstream and Marketing of PPC since November 2008; prior thereto, President of Merchant Energy since 2002, which provided consulting services to producers and infrastructure companies, including PPC from 2005 to 2008
Stuart V. Taylor Calgary, Alberta, Canada	Vice President, Gas Services	Vice President, Gas Services of PPC since July 1, 2009; prior thereto, Manager, Planning of Talisman Energy Inc. since November 2003.

Note:
(1) Effective December 9, 2009, Mr. Stephenson left his employment with PPC.

As at March 19, 2010, the directors and executive officers of PPC beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 1,666,137 Trust Units, representing approximately 1% 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 entities 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 current 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. Upon completion of the Corporate Conversion, the Governance Agreement would cease to have application due to proposed dissolution of the Fund as a result of the Corporate Conversion.

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, Lorne B. Gordon, Douglas J. Haughey, and Leslie A. O'Donoghue, each of whom is independent and financially literate within the meaning of National 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 is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Taylor was a director of Shell Canada Limited and President of Shell Canada Products Ltd. prior to his retirement in 1996. 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. 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, received in 1965, provide Mr. Taylor with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Lorne B. Gordon

Lorne B. Gordon has been a member of the Audit Committee since the retirement of David N. Kitchen from the board of directors of PPC on April 31, 2008. Mr. Gordon is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Gordon served as Vice Chairman of Coril Holdings Ltd. (a private investment and holding company) from 2004 to 2006 and was the President and Chief Executive Officer of Coril Holdings Ltd. from 1997 to 2004. Mr. Gordon also served as President and Chief Executive Officer of Pembina from 1985 to 1993, and has been a director of Pembina since it's initial public offering in 1997. This experience, coupled with his designation as a Chartered Accountant, received in 1971, provide Mr. Gordon with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Douglas J. Haughey

Douglas J. Haughey has been a member of the Audit Committee since January 1, 2009, following his appointment as a director of PPC on December 17, 2008. Mr. Haughey is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Haughey is currently President and CEO of WindShift Capital Corp. and has extensive energy infrastructure experience, having held a number of positions at the senior executive level in that industry, the most recent being President and CEO of Spectra Energy Income Fund. Mr. Haughey also holds a Bachelor of Administration degree from the University of Regina, an MBA from the University of Calgary and an ICD.D designation from the Institute of Corporate Directors. This academic and business experience provide Mr. Haughey with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Leslie A. O'Donoghue

Leslie A. O'Donoghue has been a member of the Audit Committee since May 2009, following the annual meeting of Unitholders held on April 30, 2009. Ms. O'Donoghue is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Ms. O'Donoghue is the Chief Legal Officer and Senior Vice President, Business Development of Agrium Inc. and has been involved in numerous acquisition transactions in her role there. Ms. O'Donoghue also holds a Bachelor of Arts degree, with a major in economics, from the University of Calgary. This academic and business experience provide Ms. O'Donoghue with the skill set and financial literacy required to carry out her duties as a member of the Audit Committee.

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)
2009	$644,600	$16,000	$66,675	$33,853
2008	$278,000	$15,000	$93,000	$16,000

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. The increase in audit fees from 2008 to 2009 relates primarily to the professional services required in connection with the implementation of an SAP integrated financial and business information system by PPC in 2009.

(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. In 2009, tax returns for the Fund's subsidiaries were also prepared and filed by KPMG LLP.

(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 2009, these fees related to services rendered by KPMG LLP for the filing of the Base Shelf Prospectus and procedures related to new documentation of internal control processes within a new information system reporting environment.

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, 2007 or in any proposed transaction that would materially affect Pembina, except as set forth below. With the exception of Glenys E. Hermanutz, Barbara S. Jack, Sam Stephenson, Robert M. Jones, and Stuart V. Taylor, each of 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 and each of the executive officers of PPC that was a shareholder of the Manager prior to the Management Internalization received payments from PPC for their shares of the Manager pursuant to the Management Internalization. The final payment made to such executive officers in respect of the Management Internalization was made in March of 2009. See "General Development of the Fund – Management Internalization" and Note 3 to the audited consolidated financial statements of the Fund for the year ended December 31, 2009.

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");

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

3. the amended and restated credit agreement dated as of July 24, 2006, as amended, relating to PPC's $500 million revolving credit facility due July 2012 and PPC's $50 million unsecured operating line of credit due July 2010 (see "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes");

4. the credit agreement dated as of June 2, 2009 relating to the Bridge Credit Facility (see "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes"); and

5. the credit agreement dated as of April 28, 2009 relating to PPC's $75 million senior unsecured non-revolving term facility due May 2014 (see "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes").

Copies of the above contracts are filed on the Fund's profile on the SEDAR website 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, Canada and Toronto, Ontario, Canada.

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 securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in the 2010 Information Circular 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, 2009, 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 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:

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

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

(g) the adequacy of internal controls; and

(h) 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:

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

(j) 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:

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

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

(m) review Pembina's asset retirement obligations and receive reports related to future abandonment and decommissioning costs;

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

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

(p) 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

(q) 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:

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

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

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

(u) 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.