PEMBINA PIPELINE INCOME FUND

RENEWAL ANNUAL INFORMATION FORM

For the Year Ended December 31, 2003

May 4, 2004

TABLE OF CONTENTS

GLOSSARY OF TERMS AND ABBREVIATIONS

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

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

"**Administration Agreement**" means the administration agreement between the Manager and the Fund dated September 4, 1997, as amended April 30, 1999 and as may be further amended, supplemented or restated from time to time, pursuant to which the Manager provides certain administrative services to the Fund. See "Management and Governance of the Fund – Administration Agreement";

"**AEUB**" means Alberta Energy and Utilities Board;

"**Alberta Pipelines**" means those pipelines servicing the conventional production in Alberta including the Peace System, the Pembina System, the Crude Oil System, the Brazeau System, the Miscible Flood System, the Cremona System, the Mitsue System, the Northern System and the Non-Operated Systems;

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

"**AOSPL System**" means the approximately 430 km pipeline system delivering synthetic crude oil from Syncrude's production facilities north of Fort McMurray, Alberta into the Edmonton, Alberta area;

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

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

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

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

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

"**Convertible Debentures**" means, collectively, (i) the 8.25% convertible unsecured subordinated debentures of the Fund which, subject to prior redemption or conversion, mature March 31, 2006, (ii) the 7.5% convertible unsecured subordinated debentures of the Fund which, subject to prior redemption or conversion, mature on June 30, 2007, and (iii) 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 of Note 8 to the Fund's audited consolidated financial statements for the year ended December 31, 2003;

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

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

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

"**Distributable Cash**" means all amounts received by the Fund in respect of dividends or repayments of capital on the PPC Shares and interest or repayment of principal on the PPC Notes, as the case may be, plus the income, if any, from other permitted investments under the Declaration of Trust, less amounts that may be paid by the Fund in connection with any cash redemptions of Trust Units and amounts reasonably required for the activities and operations of the Fund;

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

"**EDS Agreement**" means the ethylene delivery system storage agreement in respect of NOVA Chemicals' delivery of ethylene to and from the Storage Facility, as described under "Description of Pembina's Pipelines and the Storage Facility – The Storage Facility";

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

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

"**Facilities Agreement**" means the facilities agreement in respect of Dow Canada's provision of services and utilities to the Storage LP, as described under "Description of Pembina's Pipelines and the Storage Facility – The Storage Facility";

"**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 "Management and Governance of the Fund – Governance Agreement";

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

"**Management Agreement**" means the agreement between PPC and the Manager dated October 24, 1997, as amended and restated July 1, 2001, as may be amended, supplemented or restated from time to time, pursuant to which the Manager provides management services to PPC and the other operating subsidiaries of the Fund. See "Management and Governance of the Fund - Management Agreement";

"**Manager**" means Pembina Management Inc., an ABCA corporation that is owned by the executive officers of PPC;

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

"**Mitsue System**" means the approximately 110 km pipeline system delivering NGLs from the Mitsue gas plant in central Alberta to Judy Creek, Alberta and the Brazeau System;

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

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

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

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

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

"**Northern System**" means the approximately 650 km pipeline system delivering crude oil from Taylor, British Columbia into the Crude Oil System and Miscible Flood System;

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

"**Operating Agreement**" means the operating agreement in respect of Dow Canada's operating of the Storage Facility, as described under "Description of Pembina's Pipelines and the Storage Facility – The Storage Facility";

"**Peace System**" means the approximately 2,050 km pipeline system and related facilities delivering crude oil, condensates and NGLs from northeastern British Columbia and northwestern Alberta to Edmonton, Alberta;

"**Pembina**" means the Fund and its subsidiaries (including PPC), taken as a whole;

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

"**Pipeline Assets**" means all of the right, title and interest held by Pembina either directly or indirectly in the Alberta Pipelines, the B.C. Pipelines and the AOSPL System, and other pipeline interests or assets acquired or constructed by Pembina from time to time;

"**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 or other subsidiaries of the Fund;

"**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 last day of each calendar month, and such other dates as may be determined from time to time by the Trustee;

"**SCADA system**" means a supervisory control and data acquisition system (see "Pembina's Pipeline Operations - Information and Communication Systems");

"**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;

"**Shell Canada**" Shell Canada Limited;

"**Storage Agreement**" means the twenty year storage agreement effective May 13, 2003 among the Storage LP, Dow Canada and NOVA Chemicals, as further described under "Description of Pembina's Pipelines and the Storage Facility – The Storage Facility";

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

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

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

"**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;

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

"**Taylor System**" means the 55 km pipeline between Dawson Creek, British Columbia and Taylor, British Columbia;

"**Taylor Terminal**" means the liquids storage facilities located at Taylor, British Columbia with capacity of 400,000 bbls;

"**Trans Mountain Pipeline**" means the Trans Mountain Pipe Line system from Edmonton, Alberta to Vancouver, British Columbia;

"**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;

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

"**Wabasca System**" means the approximately 190 km pipeline system delivering crude oil from the East Peace River Arch area of northern Alberta; and

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

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

All information in this Annual Information Form is presented as of December 31, 2003 unless otherwise indicated.

ABBREVIATIONS AND CONVERSION

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
km and kms	kilometre and kilometres
kt	thousands of metric tonnes
mbbls	thousand barrels
mmbbls	million barrels
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 metres	bbls	6.293
miles	kilometres	1.609
kilometres	miles	0.621
tons (short)	tonnes (metric)	0.907
tonnes (metric)	tons (short)	1.102
kilotonnes	kilograms	1,000,000
pounds	kilograms	0.454
kilograms	pounds	2.205

DESCRIPTION OF DISTRIBUTABLE CASH, EBITDA AND OPERATING INCOME

Throughout this Annual Information Form, the term "Distributable Cash" is used to refer to the amount of cash that has been or is to be available for distribution to the Fund's Unitholders. "Distributable Cash" is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP, but is an amount calculated in accordance with the terms of the Declaration of Trust. Therefore, Distributable Cash of the Fund may not be comparable to similar measures presented by other issuers, and investors are cautioned that Distributable Cash should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.

Further, the use of the terms "EBITDA" (earnings before interest, taxes, depreciation and amortization) and "operating income" are not recognized under Canadian GAAP. Management believes that, in addition to net earnings, EBITDA and operating income are useful measures. They provide 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. Investors should be cautioned, however, that EBITDA and operating income should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance determined in accordance with GAAP as an indicator of the Fund's performance.

FORWARD-LOOKING STATEMENTS

The information contained in this Annual Information Form contains certain forward-looking statements that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "targets" and similar expressions. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including, but not limited to, the impact of competitive entities and pricing, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, regulatory environment, fluctuations in operating results and certain other risks detailed from time to time in the Fund's public disclosure documents. Undue reliance should not be placed on these forward-looking statements as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Pembina undertakes no obligation to update publicly or revise any forward-looking statements contained herein and such statements are expressly qualified by the above statements.

STRUCTURE OF THE FUND

Pembina Pipeline Income 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. The Fund holds, directly and indirectly, all of the issued and outstanding PPC Shares, the Notes issued by PPC, and one voting, non-participating share in each of two subsidiaries 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".

Pembina Pipeline Corporation and Other Operating Subsidiaries

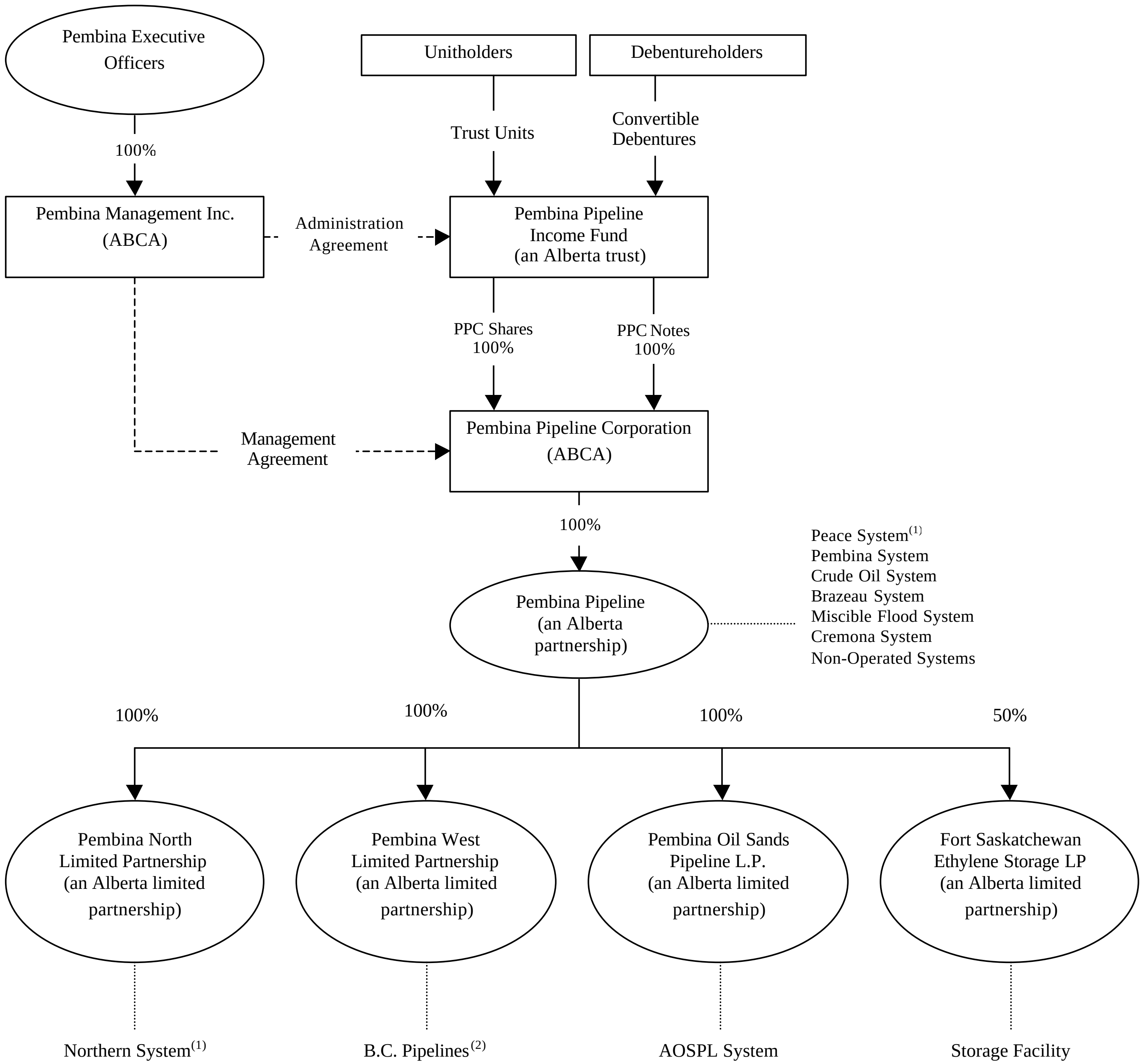
Pembina Pipeline Corporation ("PPC") is an Alberta corporation which, directly or indirectly through its subsidiaries, owns interests in 14 oil and NGLs pipeline systems and a 50% interest in an underground ethylene storage facility. The pipeline systems are grouped for functional and geographic purposes into the AOSPL System, the Alberta Pipelines and the B.C. Pipelines. See "Description of Pembina's Business" and "Description of Pembina's Pipelines and the Storage Facility" for a description of the business and operations of PPC and the other operating subsidiaries of the Fund.

Pembina Management Inc.

Pembina Management Inc. (the "Manager") was incorporated under the ABCA for the purpose of providing management, advisory and administrative services to the Fund and PPC through the Administration Agreement and Management Agreement, respectively. The Manager is a private company owned by the executive officers of PPC. For a detailed discussion of the Manager and the Management Agreement, see "Management and Governance of the Fund – Management Agreement."

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 PPC:



Notes:

(1) The Peace System, Pembina System, Crude Oil System, Brazeau System, Miscible Flood System, Cremona System, Non-Operated Systems (which consist of the Bonnie Glen System and the Wabasca System) and Northern System comprise the Alberta Pipelines.

(2) The B.C. Pipelines are comprised of the NEBC System, the Taylor System and the Western System.

GENERAL DEVELOPMENT OF THE FUND

The Fund was established on September 4, 1997 pursuant to the Declaration of Trust. On October 24, 1997, the Fund completed an initial public offering of 62,425,000 Trust Units at a price of $10 per unit. The net proceeds of the offering of $595,072,500 were used to acquire the PPC Shares and the PPC Notes. Through its ownership of PPC and other subsidiaries, the Fund initially owned 100% interests in, and operated, the Peace System, the Pembina System and the Taylor System, and owned a 50% non-operated interest in the Bonnie Glen System and a 10% non-operated interest in the Wabasca System.

In 2000, Pembina acquired all the shares of Federated Pipe Lines Ltd. for approximately $361 million, including transaction costs. Federated Pipe Lines Ltd. owned seven distinct pipelines, being the Crude Oil System, Brazeau System, Miscible Flood System, Cremona System, Mitsue System, Northern System (all of which are part of Pembina's Alberta Pipelines) and the Western System (which is part of Pembina's B.C. Pipelines). The acquisition of the shares of the Federated Pipe Lines Ltd. was funded by a $420 million syndicated credit facility. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes". Also in 2000, Pembina acquired the NEBC System for approximately $39 million, including transaction costs, from the Western Facilities Fund. The acquisition of the NEBC System was funded by established lines of credit. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes".

On December 31, 2001, Pembina acquired all of the shares of AOSPL from Alberta Energy Company Ltd. and its subsidiaries for approximately $222 million, including transaction costs. AOSPL is the sole transporter of synthetic crude oil produced by the Syncrude Project. The Syncrude Project is the world's largest producer of synthetic crude oil from oil sands. The acquisition of the shares of AOSPL was funded in part by the net proceeds of concurrent offerings of $87.5 million principal amount of 7.50% convertible unsecured subordinated debentures and 8.75 million Trust Units, and in part, by a $225 million syndicated credit facility. See "Description of the Fund and the Trust Units and Convertible Debentures – Convertible Debentures" and "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes".

On June 24, 2003, Pembina acquired a 50% interest in an underground ethylene Storage Facility through its acquisition of a 50% interest in the Storage LP from Dow Canada. The purchase price for the Storage Facility was approximately $190 million, including transaction costs. The acquisition of the 50% interest in the Storage Facility was funded by the net proceeds of the offering of $220 million principal amount of 7.35% convertible unsecured subordinated debentures. See "Description of the Fund and the Trust Units and Convertible Debentures – Convertible Debentures".

RECENT DEVELOPMENTS

Impact of 2004 Canadian Federal Government Budget Proposals

On March 23, 2004, the Canadian federal government tabled its budget which proposed certain amendments to the Tax Act which, if implemented in their current form, would affect Canadian mutual fund trusts such as the Fund. Of most relevance to Pembina is a proposed amendment to limit the level of investment by pension funds in income funds which are "business trusts" after 2004. Pembina has requested its advisors to examine the Funds' qualification as an "exempt trust" under the proposed amendments.

Another proposal contained in the Canadian federal government’s 2004 budget would affect the taxation of distributions to non-resident Unitholders. An estimated 15% of the Fund’s current distributions to non-resident Unitholders are deemed to be a return of capital, which are not subject to Canadian withholding tax. It has been proposed that a Canadian withholding tax be applied to the return of capital portion of distributions made after 2004 to non-resident investors. Under this proposal, the tax, at a rate of 15%, would be withheld from the distributions at source.

Proposed amendments to the Tax Act that are aimed at effectively limiting the proportion of ownership in income funds by non-residents of Canada (as defined in the Tax Act) are not anticipated to have a material impact on the Fund as it has a relatively minor proportion of non-resident Trust Unit ownership.

DESCRIPTION OF PEMBINA'S BUSINESS

The Fund

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 each of two subsidiaries of PPC. The Fund is totally dependent on the operations of PPC and the Fund's other 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 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's administrative expenses generally consist of the fees and expenses paid to the Trustee and to the Manager 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.

Management of the Fund strives to adopt and maintain a focused business strategy that evolves to meet a changing business and operating climate and is designed to extend the Fund's horizon of sustainable cash distributions and provide tangible opportunities for further growth.

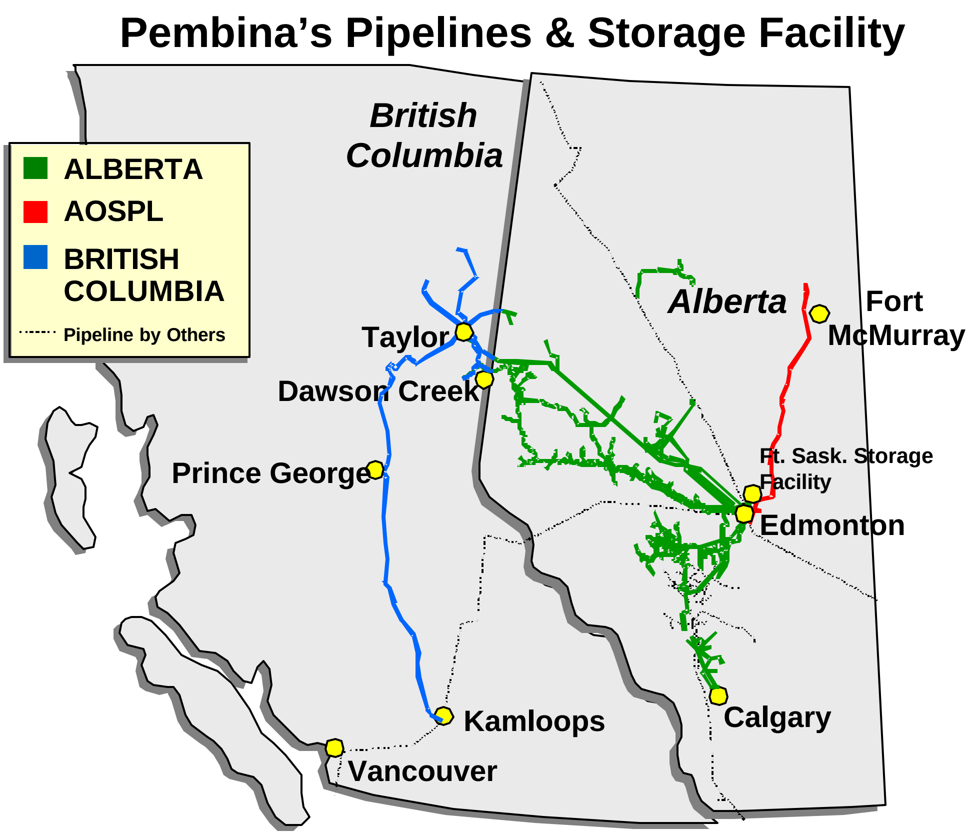
Pembina's Business Strategy and Opportunities

Pembina's business strategy is to continue to consolidate the pipeline systems and related assets that it has acquired and achieve efficiencies available through the ownership and operatorship of its diversified pipeline network and energy infrastructure assets. Pembina also seeks opportunities to increase the proportion of its asset portfolio invested in long-lived energy infrastructure. During 2003, Pembina made substantial investment in assets that are characterized by relatively predictable, sustainable and low-risk cash flows, being the capacity expansion of the AOSPL Pipeline and the acquisition of a 50% interest in the Storage Facility. Pembina will continue to seek expansion opportunities arising from increased exploration and development in areas it presently serves, and pursue extensions into areas not presently serviced if the economics support the incremental investment. Pembina will also carefully consider future growth through acquisitions if there is a strategic fit to its existing operations.

Pembina's AOSPL system is well positioned to respond to transportation opportunities stemming from the significant projects that are currently being considered in the oil sands area surrounding Fort McMurray, Alberta. Each of these projects being considered will require pipeline capacity to move its product to market. With Pembina's existing AOSPL system as a base, Pembina believes it is in an advantageous position to meet the further capacity needs of these projects. Pembina also has the capacity to transport conventional light crude oil which has seen renewed interest with sustained higher commodity prices and a shift in ownership from the major mid-capitalization exploration production companies to development-focused income and royalty trusts. With respect to the increase in NGL production, Pembina has the capacity to move this product on its conventional pipelines. A high level of 2003 exit volumes of throughput on Pembina's conventional pipelines prompted investment in these conventional systems in 2003 and several new projects on these assets are being considered for 2004. Pembina is also in the process of completing the expansion of the AOSPL System (scheduled for completion in mid-2004) to meet the needs of the Syncrude owners, who are in the process of completing a major expansion of the Syncrude Project.

DESCRIPTION OF PEMBINA'S PIPELINES AND THE STORAGE FACILITY

Pembina owns interests in 14 main pipeline systems. This network of over 8,000 kms of pipelines transports light conventional crude oil, synthetic oil, condensate and NGLs and spans the oil and natural gas producing regions of Alberta and northeastern British Columbia, including the rapidly expanding oil sands resources in northeastern Alberta. These systems are grouped for functional and geographic purposes into the AOSPL System, the Alberta Pipelines and the B.C. Pipelines. Pembina owns 100% of, and operates all, these systems other than the Taylor System (a part of the B.C. Pipelines), which it operates and jointly owns with Devon Canada Corporation, and the Non-Operated Systems (which are part of the Alberta Pipelines). The following map illustrates Pembina's pipeline systems and the Storage Facility.



Summary Operating Data
Average Daily Throughput
(mbbls/d)

	1999	2000	2001	2002	2003
Alberta Pipelines	316.1	396.3	500.8	471.8	433.6
B.C. Pipelines(1)	N/A	4.6	11.3	17.2	27.5
AOSPL System	N/A	N/A	N/A	235.0	217.6
TOTAL	**316.1**	**400.9**	**512.1**	**724.0**	**678.7**

Note:
(1) Includes B.C. production transported on the Western System only.

Outlined below is a description of the operations of each of the AOSPL Pipeline, the Alberta Pipelines, the B.C. Pipelines and the Storage Facility. **Additional information regarding Pembina's results of operations for 2003 and future plans and outlook is contained in Management's Discussion and Analysis for the year ended December 31, 2003, which is incorporated by reference herein.**

AOSPL System

The AOSPL system is comprised of a 434 km mainline and related facilities and has a single receipt point, being Syncrude Canada Ltd.'s production facility north of Fort McMurray, Alberta. AOSPL is the sole transporter for the Syncrude Project, the world's largest producer of synthetic crude oil from oil sands and the largest single source of oil in Canada. This pipeline, which has been in service since 1978 to transport all of the synthetic crude oil production from the Syncrude Project, was acquired by Pembina on December 31, 2001. The AOSPL acquisition also included the Redwater Pipeline, a conventional crude oil pipeline in the Edmonton area.

Throughput volume on the AOSPL system averaged 217,600 bbls/d in 2003, compared to 235,000 bbls/d in 2002. Lower average volume in 2003 resulted from reduced production due to extensive planned and unplanned maintenance at the Syncrude Facility during the first and fourth quarters of the year. However, by December 2003, throughput volumes had increased to 270,000 bbls/d. Revenue contribution from this system was $44.5 million in 2003 compared to $36.9 million in 2002, and operating costs totalled $17.1 million for the year compared to $15.1 million in 2002. Revenues on this system are contract-based and are not throughput sensitive, and the increase in revenues reflects incremental returns on project capital associated with the AOSPL expansion.

Returns generated by the AOSPL system are governed by the terms of a long-term agreement with the Syncrude owners. Expiry of the agreement is currently set at December 2035, commensurate with the current expiry of Syncrude's licenses, and the agreement is subject to extension. Pembina earns a rate of return on and of its depreciated capital investment along with full cost recovery. While the rate of return is independent of throughput volume, increased capital investment will ultimately increase the return generating base and the returns generated by this system. Pembina is currently completing a $180 million capital expansion of AOSPL throughput capacity, at the request of the Syncrude owners, to facilitate transportation of increasing production arising from Syncrude's Upgrader Expansion 1 and Aurora 2 projects. The AOSPL expansion, which will result in increased capacity from its present 275,000 bbls/d to 389,000 bbls/d by mid-2004, is progressing on schedule with $137.5 million expended by Pembina to December 31, 2003. A further estimated $42.5 million is anticipated to be spent by Pembina by mid-2004 to complete this expansion. Pembina anticipates that this capital will be aggregated with the existing AOSPL investment throughout 2004, effectively doubling the return generating base of this system. Further investment opportunities in AOSPL may develop as Syncrude pursues future expansion of the productive capacity of its oil sands facility. The AOSPL system was designed with future expansion in mind, and additional capacity may be constructed at a lower cost than other transportation alternatives. In 2003, Pembina began discussions with Syncrude participants and other potential third-party shippers contemplating new oil sands projects regarding potential future transportation opportunities. Negotiations are proceeding but no firm commitments or agreements have been made with respect to these matters to date.

Alberta Pipelines

Throughput on Pembina's Alberta Pipelines, a network of crude oil, condensate and NGLs pipelines, collectively averaged 433,600 bbls/d in 2003 compared with 471,800 bbls/d in 2002, a reduction of 8%. The rerouting of an average of 12,600 bbls/d of B.C. crude oil production to the B.C. Pipelines' Western System was partly responsible for the reduction. A major power interruption in eastern Canada and the eastern United States impacted throughputs in August and September. Natural field declines caused the balance of the shortfall.

Extensive oil and gas development activity in 2003 produced strong year-end volumes on the Peace and Pembina Systems, as production from new developments came on stream in the latter part of the year, resulting in 2003 exit volumes at their highest levels of the year on these systems. A new crude production battery was tied in on the

Peace System late in the year which contributed over 2,000 bbls/d of throughput. New oil and gas developments in the Peace region have partially offset the impact of production declines on connected reserves.

Pembina's Alberta Pipelines generated revenue of $163.5 million in 2003, compared with $169.9 million in 2002, a 4% reduction. The reduction in revenue is largely the result of the redirection of crude oil back onto the Western System as described above. Tariffs were increased on most systems in June and December of 2003 to offset the impact of throughput declines and rising costs on mature pipeline systems.

Peace System

The Peace System serves mature and developing oil and natural gas fields of northwestern Alberta and northeastern British Columbia with 2,100 kms of multi-product pipeline. Light crude oil, condensate, propane mix and two grades of ethane mix are transported in "batch" mode from 84 receipt points. The Peace System throughput averaged 185,000 bbls/d in 2003 compared with 194,100 bbls/d in 2002. Some of the British Columbia crude production was diverted to the Peace System when a major tank repair program at Kamloops restricted throughput on the Western System. By year end, the Kamloops terminal was back in service.

Pembina System

The Pembina System, a network of 1,300 kms of gathering pipelines connected to approximately 200 receipt points, has been in continuous operation since 1954, transporting crude oil and condensate produced from the long-life Pembina field southwest of Edmonton, Alberta. Although the Pembina production area is mature, the impact of natural field decline has been mitigated by the development activity of royalty and income trust entities that have acquired significant interests in this area in recent years. Throughput averaged 77,000 bbls/d in 2003, which was 7.2% lower than the 2002 throughput of 83,000 bbls/d. The major focus of present operations shall continue to be pipeline integrity. Pembina staff conducted between 20 and 30 internal inspections per year, followed by pipeline repair programs. Balance meters are being upgraded to improve the capability of computerized leak detection system.

Northern System

The Northern System is a batch-operated pipeline originating at Dunvegan, Alberta and extending through northwestern Alberta into the Judy Creek and Swan Hills areas, then to Fort Saskatchewan. A second pipeline originating at Taylor, B.C. delivers into the Northern mainline at Belloy. At Judy Creek, the Northern System mainline transfers condensate to the Crude Oil System for delivery to the refining hub at Edmonton. The NGLs remain on the Northern System until delivered to the fractionation hub at Fort Saskatchewan. During 2003, an average of 14,500 bbls/d of condensate, propane mix and ethane mix were transported compared to 28,200 bbls/d of those products, plus crude oil, in 2002. Over 10,000 bbls/d of the decline was due to a reduction in B.C. crude oil receipts, as described under the Peace System above. The balance is due to an unscheduled six week shutdown of the Taylor gas plant in northeast British Columbia and the transfer of Taylor condensate volumes to the Peace System.

Crude Oil System

Pembina's Crude Oil System gathers crude oil from 26 receipt point in the Swan Hills and Judy Creek areas of Alberta, as well as crude oil and condensate from the Northern System, for delivery to Edmonton. Excluding the transfer volume from the Northern System, crude oil receipts were 68,000 bbls/d in 2003 compared to 70,300 bbls/d in 2002, and 3.3% decline.

NGL System

The NGL System consists of the Brazeau System and the Miscible Flood System. The Mitsue System, which previously formed part of the NGL System, was taken out of service in mid-year, as low throughputs in this system made continued operation uneconomic. The NGL System transported an average of 68,000 bbls/d of ethane mix and propane mix during 2003 compared to 60,900 bbls/d in the prior year. Throughput had recovered to an average of over 63,000 bbls/d by the fourth quarter of 2002, as increased volume was tendered on all of the pipelines comprising the NGL System, excluding the Mitsue System.

Cremona System

Pembina transports crude oil, condensate and butane from 24 receipt points northwest of Calgary to the Rangeland Pipeline that moves product to Montana in the United States on the Cremona System. Receipts on this system averaged 17,400 bbls/d in 2003, compared to 18,400 bbls/d in the preceding year.

Non-Operated Systems

Pembina holds a 50% undivided interest in the Bonnie Glen System and a 10% undivided interest in the Wabasca System. The other 50% of the Bonnie Glen System is owned by Imperial Oil Resources, which operates the system pursuant to a joint venture agreement with Pembina. The Wabasca System is operated by Keyspan Energy Canada Inc., which holds the largest interest in the Wabasca System. Together, these systems comprise the Non-Operated Systems, which contributed an average throughput of 14,400 bbls/d in 2003, representing approximately 2% of Pembina's total pipeline throughput.

B.C. Pipelines

The B.C. Pipelines include (i) the NEBC System, which consists of three crude oil gathering pipelines upstream of Taylor, British Columbia (the Blueberry, B.C. Light & Boundary Lake pipelines) and the truck-unloading and pipeline terminal at Taylor; (ii) the Western System (which delivers into Prince George and Kamloops, B.C.); and (iii) the Taylor System (which is a crude oil gathering pipeline out of Taylor). The NEBC System gathered an average of 37,100 bbls/d of crude oil and condensate in 2003. The Western System transported an average of 27,500 bbls/d from Taylor to delivery points in Prince George and Kamloops. An additional 9,600 bbls/d of B.C's. crude oil was shipped on Pembina's Peace System into Edmonton. The major upgrading and consolidation project at the Taylor Terminal continued through 2003 and is scheduled to be completed in 2004.

Revenue generated by the B.C. Pipelines was $23.9 million in 2003, which represents a 35% increase over the prior year total of $17.7 million, and is mainly the result of the resumption of full service on the Western System late in the third quarter of 2002.

The Storage Facility

Overview

On June 24, 2003, Pembina acquired a direct and indirect interest in the Fort Saskatchewan Ethylene Storage Facility (the "Storage Facility") through the acquisition of a 49.9% interest in the Storage LP and a 50% share in the Fort Saskatchewan Ethylene Storage Corporation (the "Storage GP"), the general partner of the Storage LP, which holds a 0.2% interest in the Storage LP. The total purchase price for the acquisition was approximately $185 million. 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, NOVA Chemicals and Shell Canada are the Storage Facility's principal customers.

The Storage Facility is located near Fort Saskatchewan, Alberta, approximately 31 kms northeast of Edmonton, Alberta. The Storage Facility is made up of underground storage caverns used to store ethylene and a related central operating unit consisting of pumps, dehydrators and brine ponds. The Storage Facility is the only large-scale ethylene storage facility in Alberta and is an integral component of the Alberta petrochemical infrastructure. Ethylene is a commodity chemical produced from NGLs and crude oil-derived feed stocks which are in abundant supply in Alberta and the surrounding areas. Ethylene is used to manufacture a variety of products and materials which are used to manufacture many consumer products such as plastic bags, packaging films, antifreeze, printing inks, carpet fibres, acrylics, adhesive coatings and PVC pipe. Ethylene is also used as a feedstock for the production of various petrochemical inputs and plastics products. Ethylene storage is a critical link in the ethylene system, as it permits both producers and consumers of ethylene to manage the supply and demand dynamics and transportation logistics in an efficient, market-responsive manner. The total storage capacity of the Storage Facility is approximately 213 kt of ethylene.

Pembina's interest in this asset generated $11.2 million in revenue for the period from June 24, 2003 to December 31, 2003. Pembina's 50% share of operating expense totalled $2.3 million over the same period. In 2004, the full year results are expected to increase proportionately given the stable and consistent nature of the revenue stream.

Material Agreements

Effective May 13, 2003, NOVA Chemicals and Dow Canada (collectively, the "Customers") entered into a twenty year storage agreement with the Storage LP (the "Storage Agreement"). The Storage Agreement provides that each of Dow Canada and NOVA Chemicals have contracted to use 50% of the Storage Facility's present estimated storage capacity, subject to storage rights in respect of a specified volume of ethylene held by Shell Canada under pre-existing storage agreements through July 2004. The Storage LP must offer Shell Canada the right to contract for up to 20 kt of storage capacity (representing less than 10% of the present storage capacity of the Storage Facility) under the terms and conditions of the Storage Agreement, until July 2004, in which event the storage entitlements of Dow Canada and NOVA Chemicals under the Storage Agreement will be reduced proportionately. The Customers are required to pay a monthly storage fee to the Storage LP, generally comprised of: (i) a fixed fee calculated by multiplying each Customer's contracted capacity by a fixed amount per kilogram, and (ii) each Customer's proportionate share of certain capital costs, monthly operating costs and the capital cost of expansions to the Storage Facility. These monthly fees and recovery of capital costs and operating costs are payable to the Storage LP by the Customers regardless of whether or not the Storage Facility is receiving, injecting, withdrawing, delivery or storing any ethylene, subject to certain exceptions. The term of the Storage Agreement is 20 years and will be automatically renewed as to each Customer for successive periods of one year unless any party gives the other five year's notice of non-renewal. In the event that the Storage Agreement terminates prior to the twenty year anniversary date, the Customers are required to pay the Storage LP a make-whole payment equal to the unrecovered balance of capital expenditures made by the Storage LP prior to the termination plus the present value of the balance of the monthly base fixed fees for the remainder of the term of the Storage Agreement, discounted at a prescribed equity rate of return.

Dow Canada operates the Storage Facility pursuant to an operating agreement. Under a separate ethylene delivery system services agreement (the "EDS 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.

PEMBINA'S PIPELINE OPERATIONS

Information and Communication Systems

During 2003, Pembina continued to realize many of the operating efficiencies and economies identified during the evaluation of the pipeline assets and facilities acquired in late 2001 and in 2002 through optimization of product movements, merged operations and asset rationalization. Key to this integration initiative has been the centralization of control centre operations, providing remote control and monitoring across Pembina's expanded pipeline network. Pembina also made significant progress on a multi-year initiative to upgrade and standardize the communications infrastructure, Supervisory Control and Data Acquisition (SCADA) systems and leak detection platforms used to remotely monitor and control the various pipelines. Tightly coupled with these initiatives is the continuing development and enhancement of a remotely located back-up control centre. This facility will ensure business continuity for Pembina's operational control systems in the event of disruption at the primary control facility.

Pipeline Environmental Incidents

Environmental incidents are infrequent on Pembina's pipeline systems. In the past five years, with the exception of the Pine River spill discussed below, Pembina has not experienced any major spills that are material to its operations.

Pine River Spill

A rupture occurred on the Western System on August 1, 2000 that resulted in a release of approximately 6,000 bbls of crude oil. Approximately 3,000 bbls of this oil spilled into the Pine River in British Columbia. The release was caused by a manufacturing defect in the pipe and cleanup of the river and the spill site has been completed. The pipeline was shut down as a result of the break. Repairs were made and, to ensure operational integrity, the pipeline was hydrotested between Taylor and Prince George in 2001 and between Prince George and Kamloops in 2002, and the pipeline is now back in service. Pembina's team of independent scientists have completed two years of exhaustive study on impacts to the various components of the river ecosystem. Studies show that the river system has rapidly recovered and the ecosystem is capable of supporting fish and wildlife and has almost returned to pre-spill conditions. Pembina has concluded the process of negotiating closure with authorities.

This pipeline break has not had an adverse financial impact on Pembina as the costs are substantially reimbursed by insurance. Pembina maintains sudden and accidental seepage and pollution insurance. The limit on these insurance policies is $101 million, which is considerably in excess of the expenses and damages incurred.

Pipeline Maintenance

Pipelines and the materials used in them are designed, built and tested to high standards. When pipelines are properly maintained, failures due to pipe breakdown are rare. Pembina continues to direct substantial resources towards its programs of regularly scheduled preventative maintenance and pipeline integrity with approximately one-third of Pembina's operating budget dedicated to pipeline maintenance.

Bare steel pipe will corrode in soil, water and, to some extent, air. To avoid external corrosion, below-ground pipelines are coated with a material impervious to water and above ground piping is painted. Cathodic protection systems are used on steel pipelines to impress a small voltage on the pipe to help protect it from external corrosion. Pipelines can also corrode internally due to various forms of bacteria found in oil. Inhibitors can be added to pipeline throughputs to control internal corrosion.

Internal Inspection Program

Internal inspection tools became available in the 1970's which were designed to allow pipeline operators to measure the wall thickness along their pipelines so that areas of metal loss could be located and repaired. As these tools became available, Pembina incorporated them into its monitoring programs. By 1991, Pembina had increased the annual use of these tools with the intention of inspecting all lines within both the Peace System and the Pembina System on a regular seven to ten year cycle. By the end of the 1990's Pembina had switched from the older inspection technology and was conducting internal inspections on over 30 line segments per year using the new, more accurate high-resolution inspection tools.

Currently, Pembina's target inspection frequency is a three to seven year cycle. The major lines have been inspected since 1996. In 2003, there were 57 line segments inspected, representing approximately 20% of Pembina's total pipeline system length, and all required maintenance was completed.

Bacterial Monitoring and Treatment

The pipeline systems have programs for regularly sampling and testing oil for bacteria. Producers with excessive bacteria are required to treat their tanks with a biocide to kill the bacteria. Similarly, biocide is periodically shipped through pipelines to control and kill bacteria. Corrosion inhibitors are used to treat pipelines with internal corrosion histories to complement the application of biocide.

Cathodic Protection

Every month, readings are taken to ensure that the cathodic protection systems on the pipelines are operating at effective levels. A complete cathodic protection survey of the pipeline systems is done annually in compliance with regulatory requirements and any necessary repairs or adjustments to the cathodic protection system are made. Evaluation of the survey results provides important information on the condition of the pipeline coatings.

Tank Maintenance

The pipeline systems include a number of above and below ground storage tanks that are the subject of regular inspection and repair programs. The tanks acquired with the pipeline system acquisitions have been combined with Pembina's program.

Environmental Audit

Operation of Pembina's pipelines 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.

Pembina has in place a planned inspection program that includes requirements for both internal and external audits. Regularly scheduled facility inspections are conducted annually, on all major facilities every three years. An independent environmental audit was completed on company facilities in 2003. The audit concluded that Pembina facilities are operated in a manner that displays and establishes a level of environmental due diligence and that compliance levels are satisfactory and commendable. The concerns raised in the audit have been reviewed and a program is in place to address those concerns in a timely and effective manner. During the past year, Pembina spent approximately $3 million on reclamation and environmental matters. Pembina believes this level of expenditure will continue in the years to come and should provide sufficient funds to meet its reclamation and environmental issues.

Reclamation Obligations

At December 31, 2003, Pembina has made no accounting provision for the costs of abandonment. On abandonment of any of the Pipeline Assets, costs of abandonment are for the account of Pembina as to its ownership interest in the system. Under the terms of the various agreements governing the operations of the Pipeline Assets, the proceeds from the sale of line-fill would be available to apply to abandonment costs where such line-fill is owned by Pembina. The value of the line-fill and other assets owned by Pembina may be more or less than the abandonment costs. It is not possible to estimate the abandonment costs since they will be a function of a number of factors, including regulatory requirements at the time of abandonment, the condition of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline and charging it with an inert gas, to removal of the pipe and reclamation of the right-of-way.

Major Customers

There are approximately 65 shippers (including all major shippers of petroleum products in western Canada) on the pipeline systems owned and operated by Pembina. The major delivery points include the Enbridge Pipeline system, the Trans Mountain Pipeline system, the refineries in the Edmonton area as well as the fractionators near Fort Saskatchewan, Alberta. Deliveries are also made to the Husky refinery in Prince George, British Columbia.

Competitive Environment

Competition in the feeder pipeline industry of western Canada arises in two forms. Unconnected volumes of product are typically trucked to the most competitive truck unloading facility. Also, 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 and other NGLs carried on the Peace System. At present ethane makes up 9% of the daily throughput volumes on the Peace System.

Pembina believes that its reasonable tariffs make it competitive with alternate pipelines. In addition, Pembina has been active in entering into long term contracts with shippers and producers.

Tariffs

Pipeline tariffs for all of Pembina's systems are generally established to recover all costs and earn a reasonable rate of return on the investment in its pipelines. On certain systems, Pembina earns a return using the semi-depreciated methodology where only 50% of the original cost of the investment is subject to depreciation for rate-making purposes even though full depreciation is recognized for financial statement purposes. On the AOSPL System, the tariffs are set by a long term contract that expires in 2035. This contract provides for returns on current and invested capital and a recovery of operating costs.

Tariffs are established under contracts of varying terms and conditions and are also posted by location. Tariffs, where posted, can be generally adjusted to respond to changing volumes and costs. Contracted tariffs generally can be adjusted for changes in power costs, municipal taxes, environmental and safety costs with Pembina being at risk for volume declines.

In British Columbia, the tariffs on the NEBC System and the Western System are set by the BCUC. In June 2001, the BCUC set the tariff for 2000 and 2001 on the Western System after a contested toll hearing. Since that decision, producers and shippers from northeast British Columbia have negotiated with Pembina to achieve negotiated tolls that will be in place until July 1, 2007.

Major Contracts

Transportation and Storage

There are a number of service contracts on Pembina's pipeline systems. On the AOSPL System, Pembina has a contract to ship all Syncrude Project production until 2035 and is currently the sole shipper of synthetic crude oil produced from the oil sands operations of the Syncrude Project. This arrangement provides for a tariff that recovers all operating costs and provides for a return on current and future invested capital and is not dependent upon throughputs. This contract is capable of being extended beyond 2035 if Syncrude's operating permit is extended. As mentioned above, Pembina has recently negotiated a contract on the Western System for throughputs on that system. This contract will expire in 2007. Pembina also has contracts in place for the Storage Facility described above under "Description of Pembina's Pipelines and the Storage Facility – The Storage Facility". See also "Risk Factors – Shipper Contracts".

Power

Pembina has hedged 25% of its expected electric power consumption through 2005 and a further 25% through 2006.

Industry Regulation

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 AEUB, subject to the licensing of operational matters, the pipeline is free to establish tariffs in a competitive environment. Producers and shippers have recourse to the AEUB with respect to pipeline access and tariff rates if they can establish that the pipeline should be deemed a common carrier. Once deemed a common carrier the AEUB has the ability to set rates. No major feeder pipeline in Alberta has ever been declared a common carrier and had its tariff rates set. Producers and shippers can also apply to the AEUB for review of tariffs if they can establish that the tariffs are not just and reasonable.

On the AOSPL System, the shippers have agreed not to apply to the AEUB for tolls during the term of the agreement, which expires in 2035. The Taylor System, the NEBC System and the Western System are financially regulated by the BCUC. The BCUC approves tariffs and regulates on a complaints basis. Portions of the Peace System, the NEBC System and the Northern System are Group II NEB regulated pipelines, which means the NEB can review the tariffs if shippers file a formal complaint concerning the tariffs. There have been no complaints to the NEB on tariffs on 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.

Shipper Relations

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

Indemnification and Insurance

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

Pembina believes that it has procured such insurance coverage as would be maintained by a prudent pipeline owner and operator. 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

Pembina employs approximately 320 personnel in its pipeline operations, of which 250 are engaged in the performance of field operations and superintendence activities, and 70 are engaged in the performance of facilities engineering, systems, management, finance, administration, human resources, information services, and safety and environmental service activities. All employees are non-unionized. Pembina's workforce is stable with limited turnover.

WESTERN CANADIAN PIPELINE INDUSTRY

Crude oil, synthetic crude oil 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.

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 feed stock in refineries or the petrochemical industry. The major operational centre for the Canadian oil and natural gas industry is the Edmonton - Fort Saskatchewan area of Alberta, which is both the largest crude oil refining area in western Canada and a major fractionation area for NGLs. In addition, the Edmonton - Fort Saskatchewan area is the hub of the Alberta feeder pipeline network and the starting point of the large Canadian export pipelines.

All of Pembina's pipelines are feeder pipeline systems that collectively transport approximately 700,000 bbls/d of petroleum products, making Pembina the largest feeder pipeline company in Canada. These pipelines transport product from established production fields in their respective service areas, and the Syncrude Project, into the refining and export pipeline centres at Edmonton/Fort Saskatchewan. Upon delivery, the products can be used by local refineries and fractionators as well as being transported to markets in western and eastern Canada and the northern U.S. through export pipelines.

Pembina has no responsibility for the sale or marketing of the products it transports.

Export Pipeline Systems

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

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

Western Canada Oil and Gas Industry

Western Canada is the major source of conventional crude oil, synthetic crude oil, natural gas and bitumen in Canada. Domestic crude oil and natural gas production comes primarily from Alberta with lesser amounts from British Columbia, Saskatchewan, Manitoba and the Northwest Territories. Synthetic crude oil 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

Western Canada's hydrocarbon resource base is large and diverse, comprised of conventional light oil, heavy oil, bitumen in the oil sands of Alberta, natural gas and NGLs.

NGLs are extracted from raw natural gas at field plants so that the residual gas will meet specifications for transportation in natural gas pipelines. Almost 90% of NGLs are extracted during the processing of natural gas while the remainder is extracted from crude oil at refineries. Typically, NGLs are extracted as a mix but if an additional investment is made in "fractionation" facilities, the individual components can be separated. Most field plants do not extract ethane but leave it in the natural gas. In Alberta, ethane which has been left in the natural gas may be extracted at a straddle plant located on a major natural gas transmission pipeline and then sold as feedstock to the petrochemical industry.

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

Demand

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.

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.

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 Distributable Cash from the Fund to Unitholders; and (v) acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of PPC.

The Trustee was appointed for an initial term of ten years, expiring in 2007. The Trustee may resign by giving not less than 60 days' written notice to the Fund and the Manager and may be removed by notice in writing by the Manager 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, the Manager 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 and the Manager

Except as prohibited by law, the Trustee may delegate any of its powers and duties to other persons. Under the Declaration Trust, the Trustee has delegated the supervision of the day-to-day business and affairs of the Fund to the PPC Directors. Pursuant to the Declaration of Trust and the Administration Agreement, the Trustee has also delegated to the Manager, subject to the supervision of the PPC Directors, 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 the Manager or PPC with respect to the matters delegated to those parties under the Declaration of Trust and Administration Agreement, and in relying upon those parties, the Trustee is deemed to have satisfied its standard of care set forth above. In exercising its powers and discharging its duties under the Administration Agreement, the Manager is to exercise the degree of care, diligence and skill that a reasonably prudent administrator would exercise in comparable circumstances. See "Management and Governance of the Fund – Administration Agreement".

Trust Units and Other Securities of the Fund

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

The Declaration of Trust provides that Trust Units, and rights, warrants or other securities to purchase, convert into or exchange into Trust Units, may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustee determines. The Trustee has delegated responsibility for these matters to the Manager, subject to the supervision and approval of the PPC Directors. 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.

Investments of the Fund

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

Cash Distributions

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

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

Redemption Right

Trust Units are redeemable at any time at the option of the holders thereof. As the Trust Units are issued in "book entry only" form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice from his or her investment dealer who is required to deliver the completed redemption notice form to the Fund. Upon receipt of the redemption request by the Fund, all rights of the holder with respect to the Trust Units tendered for redemption shall cease and the holder thereof shall only be entitled to receive a price per Trust Unit ("Cash Redemption Price") equal to the lesser of: (i) 95% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Trust Units were surrendered for redemption (the "Redemption 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, 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 the Manager); (ii) at the time such Trust Units are tendered for redemption, the outstanding Trust Units shall be listed for trading on the Toronto Stock Exchange or traded or quoted on any other stock exchange or market which the Manager 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.

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 the Manager taking into account any taxes payable by the Fund arising from such redemption. The redemption price shall, subject to any applicable regulatory approvals, be paid and satisfied by way of distribution *in specie* of a pro rata number of PPC Shares, PPC Notes (in integral multiples of $100) and other securities in additional businesses, if any, acquired by the Fund and from time to time outstanding. No fractional PPC Shares, PPC Notes or securities of other businesses, if any, will be distributed and, where the number of PPC Shares, PPC Notes or securities of other businesses, if any, to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. The Fund shall be entitled to all interest paid or accrued and unpaid on the PPC Notes or other debt securities held by the Fund, if any, to all dividends declared and paid or declared payable on the PPC Shares or other shares held by the Fund, if any, on or before the date of the distribution *in specie*.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Trust Units. The PPC Shares and PPC Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop in such securities and such securities may be subject to resale restrictions under applicable securities laws. Such securities will not be qualified investments for trusts governed by an Exempt Plan. See "Risk Factors – 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 "Description of the Fund - Amendments to the Declaration of Trust"); (v) the appointment of an inspector to investigate the performance of the Trustee or the Manager 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 sales 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" 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 the Manager) by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at such meeting.

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

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

Exercise of Voting Rights Attached to PPC Shares

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

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

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

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

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

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

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

Limitation on Non-Resident Ownership

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

Amendments to the Declaration of Trust

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

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

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

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

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

Termination of the Fund

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

Take-over Bids

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

Reporting to Unitholders

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

Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan

The Fund has instituted a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "Plan"), which provides Unitholders of the Fund the opportunity to either receive a premium cash payment in lieu of the cash distribution declared 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 and cost-effective way for the Fund to issue additional equity to existing Unitholders. Pembina will determine, for each distribution payment date, the amount of new equity, if any, that will be made available under the Plan on that date.

Convertible Debentures

On March 21, 2001, the Fund issued $60.0 million of 8.25% convertible unsecured subordinated debentures maturing on March 31, 2006. These debentures may be converted at the option of the holder at a conversion price of $9.00 per Trust Unit at any time prior to maturity and may be redeemed by the Fund after April 1, 2004. The Fund may, at its option, after April 1, 2004 elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units. As at December 31, 2003, $13.5 million of these debentures were outstanding. The net proceeds of the debenture offering were used to repay a portion of the existing bank debt of PPC.

On December 4, 2001, the Fund issued $87.5 million of 7.5% convertible unsecured subordinated debentures maturing on June 30, 2007. These debentures may be converted at the option of the holder at a conversion price of $10.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund after June 30, 2005. The Fund may, at its option, after June 30, 2005 elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units. As at December 31, 2003, $41.7 million of these debentures were outstanding. The net proceeds of the debenture offering, together with the proceeds of the concurrent Trust Unit offering, were used to repay bank debt in anticipation of the acquisition of the shares of AOSPL by the Fund on December 31, 2001.

On June 19, 2003, the Fund issued $220.0 million of 7.35% convertible unsecured subordinated debentures maturing on December 31, 2010. These debentures may be converted at the option of the holder at a conversion price of $12.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund after June 30, 2006. The Fund may, at its option, after June 30, 2006 elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units. As at December 31, 2003, $209.5 million of these debentures were outstanding. The net proceeds of the debenture offering were used primarily to finance the acquisition by PPC, of a 50% interest in the Storage Facility .

For additional information regarding the Convertible Debentures, see Note 6 to the Fund's audited consolidated financial statements for the year ended December 31, 2003.

Credit Ratings

Dominion Bond Rating Service Limited

The Fund obtained a STA-2 (low) stability from Dominion Bond Rating Service Limited ("DBRS") in May 2003 and DBRS reconfirmed its rating in June 2003 following the Convertible Debenture offering completed that month.

DBRS's stability ratings consider seven main factors: operating characteristics, asset quality, financial flexibility, diversification, size and market position, sponsorship/governance, and growth. Of these factors, operating characteristics, financial flexibility, and growth rank as the most important.

Stability ratings measure the volatility and sustainability of distributions per unit of 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. The Fund 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 which are not likely to be significantly affected by foreseeable events. The Fund is above-average in many, if not most, areas of consideration.

Standard & Poor's

Standard & Poor's ("S&P") confirmed its "BBB" long-term corporate credit rating on PPC and "BBB plus" senior debt rating in June 2003 but revised its outlook to negative from stable. S&P categorized the Convertible Debentures as debt for rating purposes.

According to the S&P rating system, debt securities rated BBB 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 such obligations that on obligations in the 15 higher rating categories. The ratings from AA to B may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

The ratings on PPC reflect S&P's Ratings Services' 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 security ratings are not recommendations to buy, sell or hold those securities and may be subject to revision or withdrawal at any time by DBRS or S&P.

DESCRIPTION OF PPC AND OTHER OPERATING SUBSIDIARIES

Pembina Pipeline Corporation

Share Capital of PPC

The authorized capital of PPC consists of an unlimited number of common shares. The Fund owns all of the issued and outstanding common shares of PPC. Each common share entitles its holder to receive notice of and to attend all meetings of shareholders of PPC and to one vote at such meetings, subject to the Fund's right to vote 100% of the PPC Shares at any time it owns at least 25% of such shares. See "Management and Governance of the Fund – 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 promissory notes (the "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.

On or about October 24, 2017, and from time to time thereafter, the holder of the PPC Notes (being 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 are subordinate to and rank behind in priority to payments to third party lenders to PPC. See "Risk Factors – Debt Service" and "Risk Factors – Financial Leverage and Prior Ranking Indebtedness".

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

PPC's Credit Facilities and Senior Notes

PPC has available to it credit facilities with a syndicate of Canadian chartered banks. As of December 31, 2003, PPC had credit facilities in the amount of $230 million and a $30 million operating line of credit, of which approximately $180 million was drawn, as well as $100 million of Senior Notes originally issued in July 2002. A $190 million expansion facility to finance the expansion of the AOSPL System was drawn by $125 million. The terms both of the credit facilities and the Senior Notes are summarized in the Management's Discussion and Analysis and in Note 6 to the audited consolidated financial statements of the Fund for the year ended December 31, 2003. See "Risk

Factors – Debt Service". Effective April 21, 2004, the credit facilities moved from secured status to unsecured status.

Capital Expenditures

PPC may approve and fund capital expenditures, however, all capital expenditures in excess of $5 million for a specific project must be approved by the PPC Directors. Maintenance capital expenditures 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 – 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 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 board of directors of PPC.

Other Operating Subsidiaries

Pembina's interests in its pipeline systems and the Storage Facility 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".

RISK FACTORS

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

Risks Relating to the Fund's Securities

Limited Purpose Trust and Reliance on Pembina's Operations

The Fund is a limited purpose trust which is entirely dependent upon the operations and assets of PPC and its other operating subsidiaries through the Fund's ownership of the securities of, and debt instruments issued by, those subsidiaries. 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 to Unitholders may be adversely affected.

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. 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 Distributable Cash 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.

Variability of Cash Distributions

Distributions by the Fund to Unitholders may fluctuate. Although the Fund will distribute all of its Distributable Cash, there can be no assurance regarding the amounts thereof. The actual amount thereof 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 PPC to the Fund, may be delayed or reduced by restrictions imposed by lenders, disruptions in service or oilfield operations, or the ability of PPC to delay interest payments on the PPC Notes for up to twelve months in certain circumstances. Such factors may inhibit the Fund's ability to make monthly distributions of Distributable Cash to the Unitholders.

Dependence Upon the Operations of PPC and Other Subsidiaries

The Fund is, at present, entirely dependent upon the operations and assets of PPC (and, the Fund's other indirect wholly-owned operating subsidiaries) through its ownership of the PPC Shares and of the PPC Notes. Accordingly, the ability to make distributions to the holders of Trust Units and to pay obligations under the Convertible Debentures, including interest and principal, will be dependent upon the ability of PPC to pay interest on or principal of the PPC Notes or other debt instruments issued by PPC or other operating subsidiaries to the Fund and to declare and pay dividends or repay capital in respect of the PPC Shares. Such payments on the PPC Notes and any other debt instruments issued by PPC or other operating subsidiaries to the Fund are subordinated to the obligations under PPC's credit facilities and the Senior Notes.

Additional Financing and Capital Resources

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

Debt Service

PPC is permitted to borrow funds to finance the purchase of pipeline and other energy infrastructure assets, to fund capital expenditures and other financial obligations or expenditures in respect of those assets and for working capital purposes. Amounts paid in respect of interest and principal on debt incurred in respect of those assets reduce the amount of cash paid, directly or indirectly, by PPC and the Fund's other operating subsidiaries to the Fund. See "Description of PPC and Other Operating Subsidiaries – Pembina Pipeline Corporation – PPC's Credit Facilities and Senior Notes". Variations in interest rates and scheduled principal repayments, if required under the terms of the credit facilities or Senior Notes, could result in significant changes in the amount required to be applied to debt service before payments of cash by PPC or other operating subsidiaries to the Fund. Certain covenants of the agreements with the lenders and Senior Noteholders may also limit such payments to the Fund. Although Pembina believes the existing credit facilities are sufficient for the Fund's immediate requirements, there can be no assurance that the amount will be adequate for the future financial obligations of the Fund and its subsidiaries or that additional funds will be able to be obtained.

The holders of the 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 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. Distributions on the PPC Shares and payments on the PPC Notes, which are unsecured, are specifically subordinate to the credit facilities, which will restrict the ability of PPC to make such payments to the Fund, and therefore limit the Distributable Cash 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.

PPC, on a consolidated basis, is also required to meet certain financial covenants under the credit facilities 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.

Pembina may manage the risk associated with fluctuations in interest rates by entering into interest rate swap transactions from time to time. See Note 13 to the Fund's audited consolidated financial statements for the year ended December 31, 2003. To the extent that Pembina engages in such risk management activities, they will be subject to credit risks associated with counterparties with which they contract.

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 Distributable Cash 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, except to the extent that the PPC Notes expressly rank at least *pari passu* with such other creditors. See "Description of PPC and Other Operating Subsidiaries – 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, 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 the Manager, subject to the supervision of the PPC Directors.

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 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 the Trust Units is the annual yield on the Trust Units. An increase in market interest rates may lead purchasers of Trust Units to demand a higher annual yield and this could adversely affect the market price of the Trust Units. In addition, the market price for the Trust Units 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.

There can also be no assurance that the Fund will be in a position to redeem Trust Units for cash when requested to do so.

Changes in Legislation

There can be no assurance that income tax laws, regulatory laws or policies and government incentive programs relating to the pipeline or oil and natural gas industry, such as the status of mutual fund trusts, will not be changed in a manner which adversely affects the Fund or its Unitholders or other securityholders.

Investment Eligibility and Tax Issues

Pembina will endeavour to ensure that the Trust Units and the Convertible Debentures continue to constitute "qualified investments" for trusts governed by Exempt Plans under the Tax Act and do not constitute "foreign property" to RRSPs, RRIFs, DPSPs, RESPs, registered pension funds or plans of any other persons subject to Part XI of the Tax Act as of the date hereof. Although the Fund currently qualifies, and intends to continue to qualify, as a "mutual fund trust" under the Tax Act, if the Fund ceases to qualify as a "mutual fund trust", the Trust Units and Convertible Debentures will cease to be "qualified investments" for the Exempt Plans and may become "foreign property" for RRSPs, RRIFs, DPSPs, RESPs, registered pension funds or plans or any other persons subject to Part XI of the Tax Act as of the date hereof. Where, at the end of any month, an Exempt Plan holds Trust Units that are not "qualified investments", the Exempt Plan must, in respect of the month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units and/or Convertible Debentures at the time the Trust Units and/or Convertible Debentures were acquired by the Exempt Plan. The annuitant under an Exempt Plan could also be subject to penalty taxes in such a case. In addition, if the Fund ceases to qualify as a "mutual fund trust", the Fund will then be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for Unitholders and other securityholders of the Fund. One of the ways in which the Fund could 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.

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 the Manager 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, Unitholders may not be protected from liabilities of the Fund to the same extent that a shareholder is protected from liabilities of a corporation.

In conducting its affairs, the Fund will, however, 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. 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 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.

Risks Inherent in Pembina's Business

Reserves Replacement and Demand for Crude Oil and NGLs

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

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

Environmental Costs and Liabilities

The operation of Pembina's pipeline systems 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 is in compliance with all applicable environmental and safety regulations, risks of substantial costs and liabilities are inherent in pipeline 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, and claims for damages to persons or property resulting from Pembina's operations, could result in significant costs and liabilities to Pembina. If Pembina was not able to recover the resulting costs through insurance or increased tariffs, cash flow available to make cash distributions to Unitholders and to service obligations under the Convertible Debentures would be adversely affected.

While Pembina maintains insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered within fixed time periods, which typically range from 72 hours to seven days. 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. However, Pembina is of the opinion that it has adequate leak detection systems in place to monitor a significant spill of product.

Competition to the Pipeline Operations

Pembina competes with other pipelines in its service areas as well as the truckers of crude oil and NGLs. However, Pembina believes it is prepared for and is determined to meet these competitive pressures.

Shipper Contracts

As described above, throughput on certain of Pembina's pipelines (in particular, the AOSPL Pipeline) is governed by transportation contracts with various producers of petroleum products. Any default by counterparties under such contracts or any expirations of such contracts without renewal or replacement may have an adverse effect on Pembina's business.

Regulation

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 AEUB, 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 if they prove 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.

Pipeline Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline assets at the end of their economic life, and these abandonment costs may be substantial. The proceeds of the disposition of certain assets associated with Pembina's pipeline systems including, in respect of certain pipeline systems, line fill, would 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 holders of Trust Units and to service obligations under the Convertible Debentures.

Operational Hazards

Pembina's operations are subject to the customary hazards of the pipeline transportation business. The operations of Pembina's pipelines could be disrupted by natural disasters or other events beyond the control of Pembina. A casualty occurrence could result in the loss of equipment or life, as well as injury and property damage. 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.

Kyoto Protocol

In 1994, the United Nations' Framework Convention on Climate Change came into force and, three years later, led to the negotiation of the Kyoto Protocol, which will require, upon ratification, certain nations, including Canada, to reduce their emissions of carbon dioxide and other greenhouse gases. Canada ratified the Kyoto Protocol in December 2002, although it has not yet enacted legislation to implement the provisions of the Protocol. If and when the Canadian federal government enacts such legislation, the legislation may require reductions in carbon dioxide emissions from the operations of Canadian oil and gas producers. This could result in, among other things, increased operating costs or a requirement for higher capital expenditures for Canadian producers, leading to a decrease in production and a resulting decrease in throughputs on Pembina's pipeline systems. There can be no assurance that the implementation of the Kyoto Protocol will not have an adverse effect on Pembina's business.

Dependence Upon Syncrude Project and Other Oil Sands Projects

The Syncrude Project, located at the Athabasca oil sands north of Fort McMurray, Alberta is currently the sole source of product that is shipped through Pembina's AOSPL System mainline. The ongoing viability of the Syncrude Project and its processing facilities is essential to the continued operation of the AOSPL System. The ability of Pembina to expand and leverage this investment is dependent on future expansions and operations of Syncrude and the owners of other oil sands projects proximate to the AOSPL Pipeline.

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. The salt caverns are subject to additional dissolution of salt through the normal operation of the Storage Facility. In 1999 and 2000, well casing problems in two caverns caused both caverns to be taken out of service for 277 days. Pathways have developed between two caverns, causing Dow Canada, as the operator of the Storage Facility, to treat the caverns as a single large cavern. When caverns are connected in this way, they must be taken out of service together when the caverns are submitted for re-certification with the AEUB or when the caverns reach the end of their useful life.

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 90% of the usage of the Storage Facility in 2003. Further, Dow Canada performs important functions for the Storage LP under the Operating Agreement and Facilities Agreement, and NOVA Chemicals is the owner and operator of the ethylene delivery system, whose operations are essential to the operations of the Storage Facility. If, for any reason, either of Dow Canada or NOVA Chemicals were not able to perform its obligations under the Storage Agreement or the other agreements with the Storage LP to which they are a party, the revenue and profits of the Storage LP and the ability of the Storage LP to operate the Storage Facility could be negatively affected.

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 AEUB and Alberta Environment. Currently, the statutory requirement for the frequency of review and certification of the caverns by the AEUB 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 AEUB 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 the Manager 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 or termination of the Management Agreement or the Administration Agreement could have a detrimental effect on Pembina.

Potential Conflicts of Interest

Unitholders are dependent upon the Manager and the PPC Directors for the governance and administration of the Fund and the management of Pembina. Additionally, certain directors and officers of PPC and the Manager may be directors or officers of entities in competition to Pembina, and each of the executive officers of PPC (including Robert B. Michaleski, who is also a director of PPC) are shareholders, directors and officers of the Manager. As such, these directors or officers of PPC may encounter conflicts of interest in the administration of their duties with respect to Pembina.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of selected financial information for the Fund for the periods indicated:

	As at and for the year ended		
	December 31, 2003	December 31, 2002	December 31, 2001
	(in $ thousands, except per Trust Unit amounts)		
Revenue	$243,074	$224,467	$191,647
Operating expenses	96,151	88,972	71,368
General and administrative expenses and management fee	12,786	11,827	9,834
EBITDA(1)	133,657	122,843	114,112
EBIT(2)	57,335	54,870	31,971
Net earnings before goodwill amortization	63,390	59,536	60,791
Net earnings	63,390	59,536	40,271
Total assets	1,574,496	1,255,562	1,297,552
Long term debt	416,111	326,259	315,000
Distributions to unitholders	101,008	96,288	80,913
Per Trust Unit amounts ($)			
Net earnings - Basic	$0.52	$0.57	$0.47
- Diluted	0.52	0.57	0.47
Distributions to unitholders	$1.05	1.05	1.05

Notes:

(1) EBITDA means income before interest, income taxes and depreciation. See "Description of Distributable Cash, EBITDA and Operating Income."

(2) EBIT means income before interest and income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Fund's Management's Discussion and Analysis relating to the Fund's consolidated financial statements for the year ended December 31, 2003, which is contained on pages 14 through 32 of the Fund's 2003 Annual Report, is incorporated by reference into this Annual Information Form.

DISTRIBUTIONS TO UNITHOLDERS

Monthly Cash Distributions

Unitholders of record on each Record Date (currently being the last business day of each month) are entitled to receive monthly cash distributions of Distributable Cash of the Fund which will be paid on the 15th day of the following month.

Distributable Cash of the Fund is 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 Distributable Cash of the Fund depends on the results of operations of its subsidiaries including, among other things (i) 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 – Variability of Cash Distributions", "Risk Factors – Debt Service" and "Description of the Fund and the Trust Units – Cash Distributions".

Historical Cash Distributions

The Fund has paid or declared payable the following cash distributions to Unitholders in the past three fiscal years. **The historical distribution payments described below may not be reflective of future distribution payments.** The actual amount of Distributable Cash of the Fund that is distributed to Unitholders is determined by management and the directors of PPC, taking into account the prevailing circumstances at the relevant time, including current and anticipated operating cash flow, debt repayments and capital expenditure and working requirements.

Month of Payment Date	Cash Distribution Per Trust Unit		
	2003	**2002**	**2001**
January	$0.0875	$0.0875	$0.0875
February	$0.0875	$0.0875	$0.0875
March	$0.0875	$0.0875	$0.0875
April	$0.0875	$0.0875	$0.0875
May	$0.0875	$0.0875	$0.0875
June	$0.0875	$0.0875	$0.0875
July	$0.0875	$0.0875	$0.0875
August	$0.0875	$0.0875	$0.0875
September	$0.0875	$0.0875	$0.0875
October	$0.0875	$0.0875	$0.0875
November	$0.0875	$0.0875	$0.0875
December	$0.0875	$0.0875	$0.0875
Total	**$1.0500**	**$1.0500**	**$1.0500**

In each of January, February, March and April of 2004, a distribution of $0.0875 per Trust Unit was paid to Unitholders.

Since inception, the Fund has paid the following cash distributions to Unitholders (with a breakdown of the taxable and non-taxable portions for each year). The non-taxable return of capital to the Unitholder reduces the adjusted cost base of the Unitholder's Trust Units.

	Interest Income (Per Trust Unit)	**Non-taxable Return of Capital (Per Trust Unit)**	**Total Distribution (Per Trust Unit)**
1997	$0.0992	$0.0408	$0.14
1998	$0.6189	$0.3311	$0.95
1999	$0.7830	$0.1670	$0.95
2000	$0.7702	$0.1898	$0.96
2001	$0.9007	$0.1493	$1.05
2002	$0.8932	$0.1568	$1.05
2003	$0.9707	$0.0793	$1.05

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 2003.

Month	**High**	**Low**	**Close**	**Volume**
January	$11.30	$10.85	$11.17	3,519,787
February	11.64	10.95	11.19	4,268,806
March	11.18	10.55	10.75	3,769,647
April	11.03	10.92	10.99	2,590,493
May	11.61	11.51	11.57	4,127,473
June	12.00	11.25	11.91	2,145,682
July	12.26	11.86	11.95	4,281,590
August	12.43	11.76	12.17	4,975,932
September	12.38	11.92	12.29	3,378,134
October	12.55	12.06	12.47	4,058,682
November	12.91	12.11	12.80	3,854,482
December	13.35	12.48	13.10	3,766,900

The outstanding 8.25% Convertible Debentures of the Fund are listed and posted for trading on the TSX under the symbol "PIF.DB". The following table sets forth certain trading information for the 8.25% Convertible Debentures on the TSX in 2003.

Month	**High**	**Low**	**Close**	**Volume**
January	$123.50	$116.51	$121.05	53,610
February	125.00	120.72	124.00	2,310
March	122.00	115.00	115.01	5,150
April	123.00	113.01	123.00	790
May	129.00	122.00	125.00	5,940
June	135.00	121.01	130.00	4,910
July	137.00	125.00	130.00	5,890
August	138.00	125.00	132.00	3,330
September	134.00	128.50	134.00	6,600
October	136.00	130.00	136.00	5,840
November	139.75	131.00	138.00	5,980
December	141.00	135.00	141.00	2,620

The outstanding 7.50% Convertible Debentures of the Fund are listed and posted for trading on the TSX under the symbol "PIF.DB.A". The following table sets forth certain trading information for the 7.50% Convertible Debentures on the TSX in 2003.

Month	High	Low	Close	Volume
January	$106.50	$104.00	$104.01	5,800
February	107.00	104.00	105.76	7,570
March	107.00	103.25	103.25	5,580
April	107.01	103.00	107.01	6,200
May	111.00	105.01	110.00	37,340
June	112.00	107.01	112.00	33,360
July	115.50	109.01	112.00	11,140
August	115.50	108.01	115.50	7,270
September	116.00	110.52	116.00	18,600
October	116.50	112.26	115.00	11,830
November	118.01	113.31	118.01	7,360
December	123.95	117.00	120.00	11,450

The outstanding 7.35% Convertible Debentures of the Fund were issued on June 19, 2003 and 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 2003.

Month	High	Low	Close	Volume
June 19 to 30	$103.50	$101.51	$103.00	377,200
July	105.00	103.00	104.50	59,760
August	104.95	103.65	104.50	19,120
September	105.00	103.25	104.50	30,800
October	106.50	103.50	106.50	24,260
November	106.90	104.85	106.25	21,785
December	106.90	106.00	106.89	18,470

Additionally, in July 2002, PPC issued, on a private placement basis, $100 million in secured Senior Notes due 2017. The Senior Notes are not publicly traded. See Note 6 to the Fund's audited consolidated financial statements for the year ended December 31, 2003 for additional information regarding the Senior Notes.

MANAGEMENT AND GOVERNANCE OF THE FUND

Directors of PPC

The following table sets out the name and residence for each director of PPC, 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) and their principal occupations during the past five years.

Name and Residence	Date Appointed	Principal Occupation During the Past Five Years
Robert B. Michaleski Calgary, Alberta, Canada	January 4, 2000	President and Chief Executive Officer of PPC since January 4, 2000; prior thereto, Vice President, Finance and Chief Executive Officer of PPC.
Lorne B. Gordon(1)(2)(3) Calgary, Alberta, Canada	October 24, 1997	President and Chief Executive Officer of Coril Holdings Ltd. (a private investment and holding company).
Robert F. Taylor(3)(4) Calgary, Alberta, Canada	October 24, 1997	Independent businessman.
Myron F. Kanik(3) (4) Calgary, Alberta, Canada	October 24, 1997	Independent businessman since June 1999; prior thereto, President of Canadian Energy Pipeline Association.
David N. Kitchen(2) Calgary, Alberta, Canada	April 30, 1999	Independent businessman.
David A. Bissett(2) Calgary, Alberta, Canada	May 3, 2001	Independent businessman
Donald L. Krogseth(4) Vancouver, British Columbia, Canada	June 12, 2001	Independent businessman since June 1, 2000; prior thereto Senior Partner & Director, The CC & L Financial Services Group.

Notes:
(1) Chairman of the Board.
(2) Member of Audit Committee.
(3) Member of Compensation Committee.
(4) Member of the Health, Safety and Environment Committee.

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. Mr. Michaleski is the only executive officer of PPC who serves on PPC's board of directors.

The board of directors of PPC has three committees, being the Audit Committee, the Health, Safety and Environment Committee and the Compensation Committee each of which are made up of three independent directors with no relationship to management. Additional information regarding the responsibilities of these committees is contained under the heading "Corporate Governance Practices" on pages 12 and 13 of the Fund's 2003 Annual Report.

Executive Officers of PPC and the Manager

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

Name and Residence	Office with PPC and the Manager	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 since January 4, 2000; prior thereto, Vice President, Finance and Chief Financial Officer of PPC
S. Bruce Harris Calgary, Alberta, Canada	Vice President, Operations	Vice President, Operations of PPC since December 1, 2003; prior thereto, Manager of Pipeline Operations of PPC
Peter D. Robertson Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of PPC since January 4, 2000; prior thereto, Controller of PPC
D. James Watkinson, Q.C. Calgary, Alberta, Canada	Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary of PPC
Fred E. Webb Calgary, Alberta, Canada	Vice President and General Manager	Vice President, Business Development of PPC since December 1, 2003; prior thereto Vice President and General Manager of PPC

As of April 30, 2004, the directors of PPC and executive officers of PPC and the Manager beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 572,734 Trust Units, representing less than 1% of the then outstanding Trust Units of the Fund.

The directors and executive officers named above may be directors or officers of issuers which are in competition to the Fund. Additionally, each of the executive officers named above (including Robert B. Michaleski, who is also a director of PPC) are shareholders, directors and officers of the Manager. 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 - Potential Conflicts of Interest" and see "Management Agreement" below.

Administration Agreement

Computershare Trust Company of Canada is the Trustee of the Fund. The Trustee has the responsibility to, among other things, supervise the activities and manage the investments and affairs of the Fund, hold title to the assets of the Fund, provide timely reports to Unitholders, effect payment of distributions to Unitholders and vote the Fund's ownership in the PPC Shares in a manner which is in the best interests of the Fund and its Unitholders, generally subject to the direction of the Unitholders. Pursuant to the Administration Agreement, the Trustee has delegated the administration of the general and administrative affairs of the Fund to the Manager, including the administration of the general responsibilities listed above, subject to the supervision of the PPC Directors and the Trustee. See "Description of the Fund and the Trust Units – Delegation by the Trustee to PPC and the Manager". In consideration for providing these services, the Manager receives an annual fee of $20,000, plus reimbursement of all expenses incurred by the Manager in connection with such services. The Administration Agreement has an indefinite term, but may be terminated by either party on 90 days' written notice, or immediately in the event of termination of the Management Agreement, winding-up of the Fund, the insolvency or receivership of the Manager, a change of control of the Manager (other than a change of control to which the Fund consents) or default by the Manager in the performance of a material obligation which is not remedied within 30 days.

Management Agreement

Pursuant to the Management Agreement between PPC and the Manager, the Manager has agreed to provide managerial services to Pembina in respect of the business and operations of PPC and its affiliates, subject to the supervision and direction of the PPC Directors. The executive officers of the Manager are the same persons that are the executive officers of PPC. The services provided by the Manager include, among other things, advice and consultation concerning business planning, support, guidance and policy making and general management services. Specific functions performed by the Manager include: (i) accounting and financial services; (ii) assisting in the preparation of financial statements and other financial reports and assisting with tax matters; (iii) negotiating and communicating with third parties with respect to pipeline transportation agreements, other material contracts and other matters; (iv) arranging external professional or non-professional services; (v) assisting in providing human resources and staffing services; and (vi) advising on major acquisitions and expansions and sales of subsidiaries and/or businesses.

As compensation for its services, the Manager presently receives: (i) a management fee equal to 0.9675% of the aggregate cash distributions paid to Unitholders; (ii) an acquisition fee of 0.645% of the purchase price of any material pipeline asset or similar facility acquired by PPC or its affiliates; and (iii) a disposition fee of 0.48375% of the sale price of any material pipeline asset or similar facility sold by PPC or its affiliates. In cases of property exchanges or swaps, the Manager receives the applicable acquisition fee up to the purchase price of any pipeline or facility acquired and will receive the applicable disposition fee to the extent the value of the pipeline or facility being disposed of exceeds the purchase price. In addition, as an incentive for the Manager to enhance the overall profitability of the Fund and the cash distributions paid to Unitholders, the Manager is entitled to earn an annual incentive fee calculated as a percentage of the per Trust Unit cash distributions by the Fund. The Manager will receive an incentive fee of 4.8375% of cash distributions equal to or in excess of $1.05 per Trust Unit annually but less than $1.09 per Trust Unit annually, 6.450% of cash distributions equal to or in excess of $1.09 per Trust Unit annually but less than $1.19 per Trust Unit annually and 7.74% of cash distributions equal to or in excess of $1.19 per Trust Unit annually. The Manager is also to be reimbursed for the direct costs and expenses incurred by the Manager in providing the services under the Management Agreement. For the financial year ended December 31, 2003, total compensation paid by PPC and its affiliates to the Manager pursuant to the Management Agreement was $2.2 million, consisting of approximately $1.0 million of management fees (which includes approximately $50,000 of distribution-based incentive fees) and $1.2 million of acquisition fees. The Manager was not reimbursed for any expenses during this period.

The Management Agreement has an initial term of seven years, expiring on October 24, 2004, and will automatically continue in effect for successive five-year terms unless it is otherwise terminated as provided in the Management Agreement. PPC is entitled to terminate the Management Agreement at any time on 180 days' prior written notice to the Manager and in such case, the Manager is entitled to a termination fee, payable by PPC, equal to the aggregate of the base management fees (which for greater certainty do not include any acquisition, disposition or incentive fees) paid for the past four calendar quarters and the base management fees estimated to be paid for the next four calendar quarters. The Manager is also entitled, on 30 days' written notice, to terminate the Management Agreement within 12 months of a change of control of the Fund or a majority of its assets and in such case, will be entitled to a termination fee, payable by PPC, equal to the aggregate of the base management fees paid for the past four calendar quarters and the base management fees estimated to be paid for the next four calendar quarters. PPC or the Manager may also terminate the Management Agreement in the event of insolvency or receivership of the other party or in the case of default by the other party in a material obligation under the Management Agreement which is not remedied within 60 days after notice is given of such default, in which cases no termination fees are payable. The Manager will be entitled to terminate the Management Agreement at any time on 180 days' prior written notice to PPC without any entitlement to a termination fee.

The Manager's common shares are, and in the future will be, held by the executive officers of PPC and are subject to the terms of a unanimous shareholders' agreement which restricts the ownership of the Manager's shares to employees of PPC. Upon a holder of the Manager's common shares ceasing to be employed by PPC, PPC will have the option to purchase such holder's shares at a price equal to 2.5 times that holder's annualized share of the management fees and any incentive fees (other than the acquisition or disposition fees) received by the Manager in the twelve calendar months immediately preceding the exercise of the purchase option. However, if an executive/shareholder's employment with PPC is terminated for cause, the entire option price is forfeited to PPC. If the executive/shareholder's employment is terminated without the approval and acquiescence of the PPC directors, 40% of the option price will be paid to the executive and 60% of the option price is forfeited to PPC. If PPC acquires such shares, the shares will be surrendered for cancellation and the fees payable to the Manager will be reduced in the proportion that the number of outstanding shares of the Manager have been reduced. If PPC subsequently requests that the Manager employ a person to replace the former shareholder, the Manager must do so and issue, at a nominal price, new shares in the capital of the Manager as PPC may request. The number of such newly-issued shares shall not exceed the aggregate number of Manager shares cancelled over time, and the fees payable to the Manager by PPC will be readjusted in a similar manner, provided that those fees shall not exceed the fees currently payable under the Management Agreement.

The Manager is not required to devote its personnel and resources exclusively to or solely for the benefit of Pembina and may be come engaged in business activities other than those which directly compete with Pembina's business activities. However, these provisions in no way reduce or waive any of the Manager's duties and obligations under the Management Agreement, and in providing its services to Pembina under the Management Agreement, the Manager must exercise the degree of care, diligence and skill that a reasonably prudent advisor or manager having responsibility for the management of a similar business would exercise in comparable circumstances. If the interests of the Manager come into conflict with those of Pembina (or *vice versa*), the party in conflict must give written notice to the other party setting forth the reason for the conflict and, if the conflict is in respect of matter that is required to be dealt with by the PPC Directors, any PPC Director who is affiliated with the Manager is not entitled to vote in respect of the matter. Any such matter is to be resolved by the Manager and Pembina in good faith and on a basis consistent with the business objectives and financial resources of each group of interested parties and the totality of the relationship between those parties.

Governance Agreement

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.

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, or any associate or affiliate of the foregoing, has had any material interest, direct or indirect, in any material transaction with Pembina since January 1, 2001 or in any proposed transaction that would materially affect Pembina, except as set forth below. The executive officers of PPC (including Robert B. Michaleski, who is also a director of PPC) are also shareholders, directors and officers of the Manager, which receives payment of fees for managing the business and affairs of the Fund and its subsidiaries pursuant to the Management Agreement. In 2003, the Manager received an aggregate of $1.0 million in base management fees and $1.2 million in acquisition fees pursuant to the Management Agreement. See "Management and Governance of the Fund – Management Agreement".

MATERIAL CONTRACTS

Set out below are the contracts, other than contracts entered into in the normal course of business, that may be considered material to the Fund

1. The Declaration of Trust. See "Description of the Fund and the Trust Units".

2. The trust indenture between the Fund and Computershare, as trustee, dated March 21, 2001, as supplemented by supplemental indentures dated December 4, 2001 and June 19, 2003, relating to the issuances of the Convertible Debentures.

REGISTRAR AND TRANSFER AGENT

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

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 Fund's information circular dated March 12, 2004 for its 2004 annual general meeting of Unitholders. 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, 2003.