

ANNUAL REPORT

20
09



PEMBINA PIPELINE INCOME FUND



ABOUT PEMBINA

The Pembina Pipeline Income Fund was established in 1997 when it acquired all the notes and shares of Pembina Pipeline Corporation. Pembina transports approximately half of Alberta's conventional crude oil, about 20 percent of the natural gas liquids produced in Western Canada and has three pipelines that provide substantial transportation support to Alberta's oil sands industry. The Fund's midstream operations – terminals, storage and hub services – were expanded in 2009 to include natural gas gathering and processing assets. These premium assets provide reliable, responsible and competitive services to our customers and sustainable monthly cash distributions to investors. Pembina's trust units (PIF.UN) and convertible debentures (PIF.DB.B) are traded on the Toronto Stock Exchange.

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Forward-looking Statements and Information

This Annual Report includes forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Please see page 40.

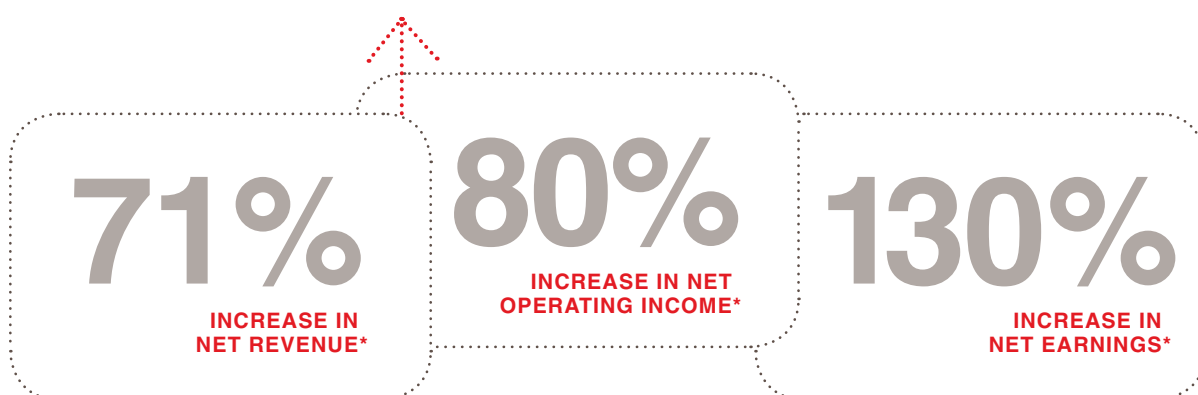
FINANCIAL REVIEW

	2009	2008	2007	2006	2005
Year ended December 31 (in millions of dollars, except where noted)					
Revenue	811.8	674.8	504.8	340.9	290.5
Less: product purchases	314.4	220.9	115.1	5.1	
Net revenue ⁽¹⁾	497.4	453.9	389.7	335.8	290.5
Operating expenses	159.2	150.9	129.6	120.6	102.7
Net operating income ⁽¹⁾	338.2	303.0	260.1	215.2	187.8
EBITDA ⁽¹⁾	279.9	287.9 ⁽²⁾	220.5	184.2	169.5
Net earnings	162.1	161.8 ⁽²⁾	142.3	88.9	70.4
Net earnings per Trust Unit – basic (dollars)	1.09	1.21 ⁽²⁾	1.09	0.73	0.65
Cash flow from operating activities	224.6	219.9	189.5	143.8	112.4
Distributed cash ⁽¹⁾	232.3	198.8	178.9	142.3	113.5
Distributed cash per Trust Unit ⁽¹⁾ (dollars)	1.56	1.49	1.37	1.17	1.05
Total enterprise value ⁽¹⁾ (billions of dollars)	4.0	3.0	3.2	2.7	2.5
Capital expenditures	423.7	223.0	300.3	168.9	79.5
Total long-term debt to enterprise value ⁽¹⁾ (percent)	30.1%	32.1%	26.3%	23.7%	27.3%
Throughput (thousands of barrels per day)					
Conventional Pipelines (average daily)	393.3	439.2	447.1	448.5	435.4
Oil Sands & Heavy Oil (contracted capacity)	775.0	775.0	525.0	389.0	389.0
Throughput and contracted capacity	1,168.3	1,214.2	972.1	837.5	824.4
Average Cutbank Complex processing volume ⁽³⁾ (mncf/d)	197.4				

(1) Refer to "Non-GAAP Measures" on page 8.

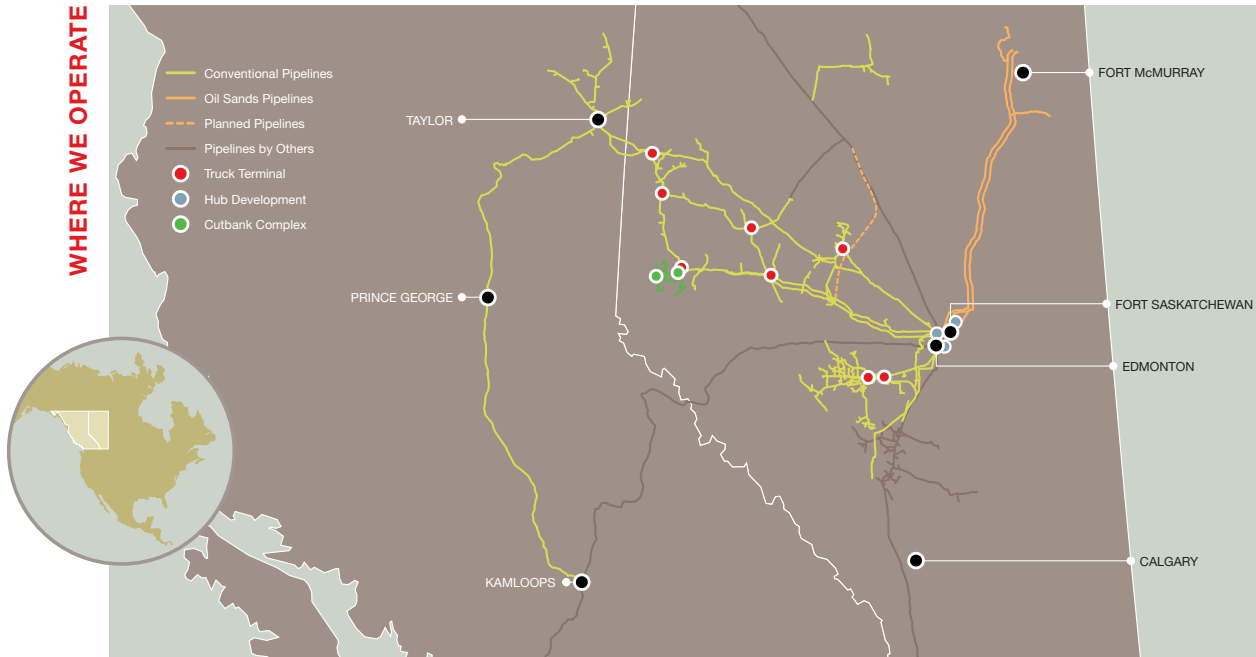
(2) Including a one-time gain on sale of linefill for \$42.9 million (\$29.9 million after-tax).

(3) Pembina acquired the Cutbank Complex in June 2009. As a result, 2009 data reflects only seven months of operations.



*From year ended 2005 to year ended 2009.

BRANCHING OUT



OUR BUSINESSES

WHAT WE DO Conventional Pipelines

With a 7,500 kilometre network of pipelines and related facilities that extend across much of Alberta and British Columbia, this business transports about 50 percent of Alberta's conventional crude oil production and approximately 20 percent of the natural gas liquids (NGLs) produced in Western Canada. The primary objective for Pembina's Conventional Pipelines is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue enhancements. In 2009, average throughput was 393,300 barrels per day (bbls/d).

Oil Sands & Heavy Oil

Pembina plays an important role in supporting Alberta's oil sands industry, transporting crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Ltd. (via the Horizon Pipeline) to markets near Edmonton, Alberta. Pembina also owns and operates the Cheecham Lateral, which transports product to oil sands producers operating southeast of Fort McMurray, Alberta. In total, this business has approximately 1,000 kilometres of oil sands pipelines with 775,000 bbls/d of transportation capacity. These assets operate under long-term, extendible contracts that provide for the flow through of operating expenses to customers.

Midstream & Marketing

This business consists of a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility located near Edmonton, Alberta; the Cutbank natural gas gathering and processing complex located in western Alberta; and a network of terminals, storage and hub services operated on Pembina's conventional pipelines. By vertically integrating services along the hydrocarbon value chain, this business has increased the range of services provided to customers and has contributed to conventional pipeline throughputs.

RELIABLE, STRATEGIC, RESPONSIBLE

MESSAGE TO UNITHOLDERS

Pembina enjoyed another significant year of accomplishments in 2009 by focusing on operational excellence in our existing businesses and responsibly pursuing and implementing new opportunities for growth. As a result, Pembina had record revenues (net of product purchases) of \$497.4 million while our net operating income increased by nearly 12 percent to \$338 million. By providing investors with \$1.56 per unit in 2009, we also established the highest levels of Unitholder cash distributions in the Fund's 12-year history.

All three of Pembina's businesses – Conventional Pipelines, Oil Sands & Heavy Oil and Midstream & Marketing – contributed to our financial achievements in 2009. Our Oil Sands & Heavy Oil business had the greatest improvement in growth, seeing net operating income increase by 44 percent in 2009 over 2008. This strong performance was primarily the result of our Horizon Pipeline which generated \$46.4 million in net operating income during 2009, compared to \$11.9 million in 2008 – the year construction of this pipeline was completed.

Another key development in 2009 was Pembina's acquisition, in June, of the Cutbank Complex which marked our strategic entry into the gas gathering and processing business. This \$297 million acquisition further diversified our asset base, enhanced the flexibility of our business plan and is expected to provide reliable operating income for years to come. In the seven months of 2009 that Pembina owned and operated Cutbank, it contributed \$23 million to net operating income.

Located in the heart of the Alberta Deep Basin gas region, the Cutbank Complex operates in one of the most active exploration areas in the Western Canadian Sedimentary Basin. The competitive development cost structure of this region, in combination with its excellent supply potential, make this an attractive area for development, even in challenging commodity price environments. The region also generates large quantities of NGLs, which benefit our integrated business strategy as these volumes can be transported by our Peace Pipeline system. Pembina continues to examine ways to exploit the existing capacity at Cutbank and capitalize on opportunities to enhance the gas and liquids services currently offered there.

In 2009, we submitted the regulatory applications for our Nipisi diluted heavy oil pipeline and Mitsue condensate pipeline projects. These projects reflect Pembina's increasingly significant role as an energy transportation and service provider for Western Canada's heavy oil producers. At

an estimated combined capital cost of \$440 million, Pembina expects the new pipelines to be placed into service in mid-2011. Pembina's internal projections estimate the pipelines will contribute \$45 million in annual net operating income.⁽¹⁾ Stakeholder consultation on these two projects continues and construction is expected to begin in late 2010, pending regulatory approval.

Even with these exciting growth opportunities the past year was challenging. Low commodity prices impacted certain business fundamentals including revenues generated through hub and truck terminal services. Our Midstream & Marketing business responded by diversifying revenue through the expansion of its terminals and storage facilities. In 2009 we invested \$35.9 million on these projects.

We also saw a 10 percent decline in throughputs within our Conventional Pipelines business in 2009. This decline was primarily the result of reduced crude oil and NGL production in

(1) Based on Pembina's current assumptions, estimates, expectations and projections, actual results may differ materially. See "Forward-looking Statements and Information" on page 40 for more information.

the upstream sector; a reflection of the downturn in commodity prices, changes in the Alberta royalty regime and limited access to credit and equity markets for many energy companies. To counter the challenge created by this volatile market, Conventional Pipelines reduced operating expenses by \$8.6 million from 2008 and introduced select toll increases.

We are cautiously optimistic that 2010 will be a better year for our Conventional Pipelines business. Forecasts made by the Petroleum Services Association of Canada indicate that drilling in Alberta in 2010 is expected to be up four percent over 2009, while drilling in British Columbia is expected to increase by 10 percent. This increased activity in the upstream sector may be reflected in stronger throughputs for Pembina.

Already there is significant interest in horizontal drilling in the Cardium oil formation located near Drayton Valley, Alberta. Once production from Cardium is commercialized, we believe Pembina's Drayton Valley pipeline can make capacity available to transport these new volumes without material capital investment.

Exploiting the value of our assets by maintaining operational excellence – safe, reliable, cost-effective customer service – across all our businesses remains a top priority as we convert from an income trust fund to a corporation. We will seek Unitholder approval of the conversion at our May 7, 2010 Annual General and Special Meeting. Pembina continues to pursue ambitious growth plans and converting to a corporate entity should help

support those initiatives, as we expect to realize greater access to equity capital markets and benefit from a simplified capital structure after the conversion. For eligible investors, we expect the more favourable treatment of dividends, as compared to distributions of income under current Canadian tax law, may result in more attractive after-tax returns.

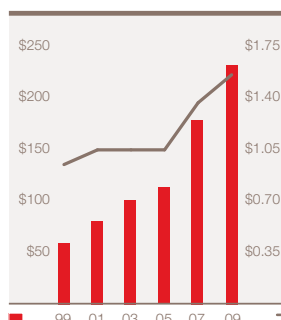
Pembina's commitment to prudent fiscal management and staged, carefully managed growth continues to be a winning formula. That's why we believe we remain on track to maintain our current level of cash distributions of \$1.56 per unit per year through 2013.⁽¹⁾ Our aim: to provide investors with a reliable stream of cash flow while we also work to increase the long-term value of an investment in Pembina.

Revenue & EBITDA ⁽²⁾



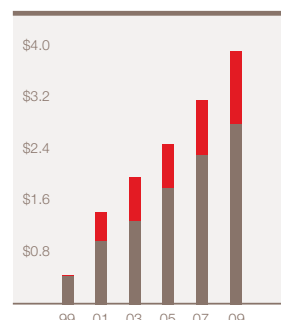
■ Revenue (\$ millions)
 — EBITDA (\$ millions)⁽²⁾

Distributed Cash & Distributed Cash per Trust Unit ⁽²⁾



■ Distributed Cash (\$ millions)
 — Distributed Cash per Trust Unit (\$ per Trust Unit)

Total Enterprise Value ⁽²⁾



■ Debt (\$ billions)
 ■ Equity (\$ billions)

(1) Based on Pembina's current assumptions, estimates, expectations and projections, actual results may differ materially. See "Forward-looking Statements and Information" on page 40 for more information.

(2) Refer to "Non-GAAP Measures" on page 8.

(3) EBITDA includes a one-time gain on sale of linefill of \$42.9 million for 2008.

LOOKING AHEAD

Building on a Foundation of Success

In February 2010, Pembina's Board of Directors approved a capital spending plan for the year of \$240 million. This investment plan reflects two of Pembina's key priorities:

- ensure our existing businesses continue to operate safely, reliably and in a cost-effective manner so they deliver the financial backbone required to support growth; and
- pursue responsible growth to generate new sources of revenue and enhance the value of our existing assets.

Approximately \$152 million – about 60 percent of the 2010 capital budget – is allocated for the construction of the Nipisi and Mitsue Pipeline projects, while \$46 million is planned for our Conventional Pipeline business

to increase capacity at certain sites and enhance operational performance. We intend to invest approximately \$35 million on projects to expand our Midstream & Marketing business through improvements to terminals, storage facilities and gas gathering and processing assets.

We anticipate these expenditures will be financed through existing undrawn credit facilities, Pembina's Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan and cash flow from operating activities. This again highlights the need for operational excellence in our existing businesses because success there is essential to financing our future. As we move forward with our growth plans, we'll continue to set for ourselves the very highest standards of safety, reliability, cost effective operations and environmental responsibility.

Key to all these efforts are Pembina's employees and management, a talented and dedicated workforce that is committed to delivering investor value. I would also like to thank our Board of Directors whose wisdom and guidance is invaluable and I would like to particularly thank and congratulate Director David Bissett on his retirement from Pembina's Board after nine years of service. Finally, I want to thank you, Pembina's Unitholders, for your confidence and support. Together, I know we'll continue to build an organization of which we can all be proud.



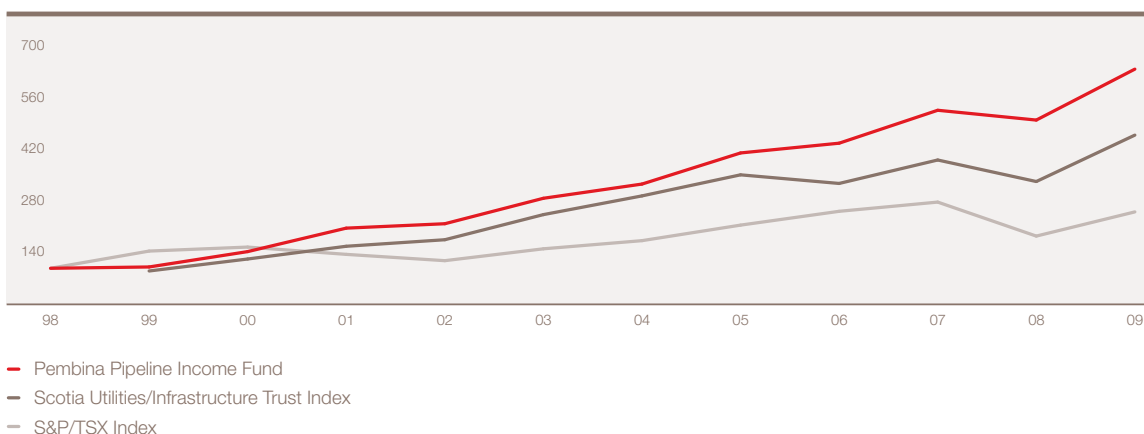
Robert B. Michaleski

President and Chief Executive Officer
Pembina Pipeline Corporation

March 4, 2010

Comparative Total Returns⁽¹⁾

Relative performance (100 = October 23, 1998)



(1) Source: Scotia Capital Utilities and Infrastructure Trust Index and Bloomberg. Distributions are reinvested in their respective securities. Pembina Pipeline Income Fund commenced trading as fully paid Trust Unit on October 23, 1998.

ACCOMPLISHMENTS IN 2009

- **Distributed cash** was \$232.3 million or \$1.56 per Trust Unit – the highest level of Unitholder cash distribution in the Fund's 12-year history.
- **Expanded operations**
 - Horizon Pipeline provides full service to Canadian Natural Resources Ltd. oil sands operation.
 - Achieved strategic entry into the natural gas gathering and processing business through the \$297 million acquisition of the Cutbank Complex.
 - Created new sources of revenue by expanding our Alberta-based midstream services: crude oil hubs at Gordondale, Valleyview and Namao were expanded and Pembina completed a full year of truck terminal operations at Buck Creek.
- **Planned for responsible growth** Submitted all required regulatory applications for the Nipisi and Mitsue Pipeline projects. Advanced stakeholder consultation, completed 80 percent of the project engineering and entered into procurement agreements that generated certainty for 60 percent of the cost of the projects.
- **Prepared for conversion** Developed plans to ensure smooth transition from an income trust fund to a corporation. Plan to maintain cash distribution of \$1.56 per unit per year as a dividend in the new structure through 2013.⁽¹⁾
- **Strengthened business processes** Implemented new business systems, processes and management training programs to improve financial and management efficiency. These initiatives strengthened governance controls.

PLANS FOR 2010

- **Pursue responsible growth** Receive stakeholder and regulatory support and begin constructing the Nipisi and Mitsue Pipeline projects in the fourth quarter.
- **Complete corporate conversion** Unitholders to vote on conversion at Annual General and Special Meeting on May 7, 2010.
- **Expand existing operations**
 - Conventional Pipelines:** work with producers to examine opportunities to transport new volumes. Focus is on, but not limited to, volumes associated with the Cardium oil formation, that could be transported on our Drayton Valley pipeline.
 - Midstream & Marketing:** examine expanded liquid extraction opportunities at the Cutbank Complex while also pursuing additional plant and storage acquisitions.
- **Implement capital spending plan** Prudently implement Pembina's \$240 million capital expenditure plan, on budget and on schedule.
- **Maintain operation excellence** While pursuing growth projects, ensure existing operations run safely, efficiently and in an environmentally-responsible manner. Controlling expenses is key to maintaining operating margins that generate value for Pembina's investors while also enabling Pembina to offer competitive services to our customers.

(1) Based on Pembina's current assumptions, estimates, expectations and projections, actual results may differ materially. See "Forward-looking Statements and Information" on page 40 for more information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial and operating results of Pembina Pipeline Income Fund ("Pembina" or the "Fund") dated March 4, 2010 is supplementary to, and should be read in conjunction with, the audited Consolidated Financial Statements for the years ended December 31, 2009 and 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars unless otherwise specified. This MD&A also reports on certain non-GAAP financial measures that are used by management to evaluate the performance of Pembina and its businesses. Since certain non-GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the "Non-GAAP Measures" on page 8 for further information on the definition, calculation and reconciliation of non-GAAP financial measures. This MD&A has been reviewed and approved by Pembina's Audit Committee and its Board of Directors.

2009 CONSOLIDATED FINANCIAL OVERVIEW AND COMPARISON TO 2008 AND 2007

	2009	2008	2007
Years ended December 31 (\$ millions, except where noted)			
Revenue	811.8	674.8	504.8
Less: product purchases	314.4	220.9	115.1
Net revenue ⁽¹⁾	497.4	453.9	389.7
Operating expenses	159.2	150.9	129.6
Net operating income ⁽¹⁾	338.2	303.0	260.1
EBITDA ⁽¹⁾	279.9	287.9 ⁽²⁾	220.5
Net earnings	162.1	161.8 ⁽²⁾	142.3
Net earnings per Trust Unit – basic (dollars)	1.09	1.21 ⁽²⁾	1.09
Cash flow from operating activities	224.6	219.9	189.5
Distributed cash ⁽¹⁾	232.3	198.8	178.9
Distributed cash per Trust Unit ⁽¹⁾ (dollars)	1.56	1.49	1.37
Total enterprise value ⁽¹⁾	3,972.4	3,021.4	3,179.2
Capital expenditures	423.7	223.0	300.3
Total assets	2,581.1	2,118.2	1,966.8
Total long-term financial liabilities	1,190.8	1,069.7	976.3

(1) Refer to "Non-GAAP Measures" on page 8.

(2) Including a one-time gain on sale of linefill of \$42.9 million (\$29.9 million after tax).

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. Actual results may differ materially from those expressed or implied by these forward-looking statements. For more information, refer to "Forward-looking Statements and Information" on page 40.

NON-GAAP MEASURES

Throughout this MD&A, the Fund has used the following terms that are not defined by GAAP:

Distributable cash

Distributable cash is a non-GAAP measure the Fund uses to manage its business and to assess future cash requirements that impact the determination of future distributions to Unitholders. The Fund defines distributable cash as cash flow from operating activities less pension and post retirement benefit expense net of contributions, net changes in non-cash working capital, Trust Unit based compensation expense and amortization of financing fees. The impact of these items is excluded in the calculation of distributable cash as it adjusts for timing differences throughout the year. Not all available cash is distributed to Unitholders.

Distributed cash

Pursuant to the terms in the Fund's Declaration of Trust, distributed cash is the amount of cash that has been or is to be distributed to Unitholders. Distributed cash is a measure the Fund uses to manage its business and is commonly used by management, along with other measures, to determine payout ratio. This measure is also used by management and the investment community to assess the sustainability of cash distributions.

Distributed cash per Trust Unit

Distributed cash per Trust Unit is a measure which summarizes the distributions that Unitholders have received on a basic and diluted level and is calculated by dividing distributed cash by the weighted average number of basic and diluted Trust Units outstanding during the year.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

EBITDA is commonly used by management, investors and creditors in the calculation of ratios for assessing leverage and financial performance and is calculated as net income plus interest, taxes, depreciation and amortization.

Total enterprise value

Total enterprise value, in combination with other measures, is used by management and the investment community to assess the overall market value of the business. Total enterprise value is calculated based on the market value of Trust Units and convertible debentures at a specific date plus senior debt (see Note 8 to the accompanying Financial Statements).

Net revenue

Net revenue is defined by Pembina as revenue net of product purchases.

Net operating income

Net operating income is calculated by subtracting operating expenses from revenues. Net operating income is used to assess the performance of specific business units before general and administrative expenses and other non-operating expenses. This measure, together with other measures, is used by management and the investment community to assess the source and sustainability of cash distributions.

Payout ratio

Payout ratio is the Fund's distributed cash to Unitholders divided by its distributable cash at the end of a period. This measure, in combination with other measures, is used by management and the investment community to assess the sustainability of cash distributions.

Management believes these supplemental non-GAAP measures facilitate the understanding of the Fund's results from operations, leverage, liquidity and financial position. Investors should be cautioned that distributable cash, distributed cash, EBITDA, total enterprise value and net operating income should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP. Furthermore, these non-GAAP measures may not be comparable to similar measures presented by other issuers.

MATERIALITY

For the purposes of the MD&A and the financial statements and for the purposes of general disclosure to the investment community, Pembina considers an item or event to be material if the omission or misstatement of an item of information or event, or an aggregate of such items or events, would reasonably be expected to result in a significant change in the market price or value of any of the Fund's securities, or would influence or change an investor's decision to buy, sell or hold the Fund's securities. In order to determine what information would be considered as material, management's review includes, but is not limited to, determination as to an item or event's estimated effect on income and operating expenses, future impact to operations and overall returns to Pembina. Pembina's Board of Directors, Audit Committee, auditors and outside legal counsel are consulted on an as needed basis with respect to the required disclosure applicable to certain matters.

OVERVIEW

Pembina's Board of Directors intends to ask Unitholders, at its annual general and special meeting to be held May 7, 2010, to vote in favour of converting the Pembina Pipeline Income Fund into a corporation. Additional details pertaining to this planned conversion will be provided in Pembina's annual management information circular and other regulatory documents which will be filed under the Fund's profile on www.sedar.com. In some instances this MD&A provides forward-looking statements and information relating to this planned conversion, however, as most of this MD&A references past financial and operating performance concerning the Fund's trust structure (primarily financial results and operating performance for 2009 and 2008), the information contained within this MD&A will, in most instances, be applicable to the Pembina Pipeline Income Fund and its Unitholders.

Pembina Pipeline Income Fund's wholly-owned subsidiary, Pembina Pipeline Corporation is an energy transportation and service provider that owns and operates pipeline assets and facilities in Alberta and British Columbia. Pembina transports conventional crude oil, natural gas liquids ("NGLs"), synthetic crude and heavy oil and also serves customers through a network of terminals, storage facilities, hub services and natural gas gathering and processing facilities.

The Fund, an unincorporated open-ended trust, pays monthly cash distributions to Unitholders, if, as and when determined by the Board of Directors of Pembina Pipeline Corporation. Pembina's publicly-traded securities trade on the Toronto Stock Exchange under the symbols: PIF.UN – Trust Units and PIF.DB.B – 7.35 percent Convertible Debentures. Pembina's corporate head office is located in Calgary, Alberta.

BUSINESS OBJECTIVES AND STRATEGY

The Fund's principal objective is to provide reliable returns to investors through cash distributions while also enhancing the long-term financial value of Pembina's Trust Units. To accomplish this, Pembina utilizes the following strategy:

- Generate value by providing customers with cost-effective, reliable services.
- Diversify Pembina's asset base to enhance profitability. A diverse portfolio provides Pembina with the ability to respond to market conditions, reduce risk and increase opportunities to leverage existing businesses. A priority is placed on developing businesses that support Pembina's core competency – operating crude oil and NGL transportation systems – which allow for expansion, vertical integration and accretive growth.
- Implement growth in a safe and environmentally responsible manner. Growth is expected to occur through expansion of existing businesses, acquisitions and the development of new services. Pembina's investment criteria includes pursuing projects or assets that are located in close proximity to long-life, economic, hydrocarbon reserves that are expected to generate increased cash flow and build investor value.
- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

Pembina's business objectives and strategy are reviewed at least annually by its Board of Directors.

Pembina's business is structured in three units: Conventional Pipelines, Oil Sands & Heavy Oil and Midstream & Marketing.

Conventional Pipelines

Pembina's Conventional Pipelines form a 7,500 kilometre network that extends across much of Alberta and British Columbia, transporting about 50 percent of Alberta's conventional crude oil production and approximately 20 percent of the NGLs produced in Western Canada. The primary objective for Pembina's Conventional Pipelines business is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue enhancements. Operating margins are maintained through incremental volume capture and system expansion, revenue management and operating expense discipline. In 2009, average throughput was 393,300 barrels per day (bbls/d). This consisted of an average of 277,198 bbls/d of crude oil and 116,052 bbls/d of NGLs.

Oil Sands & Heavy Oil

Pembina plays an important role in supporting northern Alberta's oil sands industry, transporting crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Ltd. ("CNRL") (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Cheecham Lateral, which transports product to oil sands producers operating southeast of Fort McMurray, Alberta. In total, this business has approximately 1,000 kilometres of oil sands pipeline with 775,000 bbls/d of transportation capacity. These assets operate under long-term, extendible contracts that provide for the flow through of operating expenses to customers. As a result, net operating income from this business is primarily related to invested capital and is not generally sensitive to fluctuations in operating expenses or actual throughputs. Pembina has planned for the expansion of the Oil Sands & Heavy Oil business through the construction of the Nipisi and Mitsue Pipeline projects. For more information see "New Developments and Outlook" on page 18.

Midstream & Marketing

This business consists of a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility located near Edmonton, Alberta; the Cutbank Complex located in western Alberta, which includes approximately 300 kilometres of gas gathering pipelines and three sweet gas plants that have the capacity to process approximately 360 million cubic feet per day (mmcf/d), of which 305 mmcf/d is net to Pembina; and a network of terminals, storage and hub services operated on Pembina's Conventional Pipelines business. By vertically integrating services along the hydrocarbon value chain, this business has increased the range of services provided to customers and has contributed to conventional pipeline throughputs.

CORPORATE GOVERNANCE

Pembina is committed to maintaining a high standard of corporate governance and ethical practices, both within the corporate boardroom and throughout its operations. Pembina's corporate governance practices are designed with a view to:

- Ensure the business of Pembina is effectively managed in the best interests of investors;
- Ensure Pembina meets its obligations to all regulatory bodies, business partners, customers, stakeholders, employees and Unitholders on an on-going basis; and
- Ensure Pembina operates in a safe, reliable and environmentally-responsible manner.

Pembina's Code of Ethics, which is available at www.pembina.com and the Fund's profile on www.sedar.com, outlines Pembina's vision, strategy and commitment to fair and ethical practices. The Code of Ethics establishes a high standard for governing the activities of Pembina's employees, executive and Board of Directors, including expectations for ensuring a safe, healthy and respectful workplace, maintaining personal privacy and the protection of confidential information. These corporate governance practices are not limited to internally-focused activities. Pembina places a great deal of importance on community involvement, consultation and maintaining good relationships with stakeholders.

REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

As part of the requirements mandated by the Canadian securities regulatory authorities under Multilateral Instrument 52-109 "Certification of Disclosure in Issuer's Annual and Interim Filings", Pembina's Chief Executive Officer and the Chief Financial Officer have evaluated the Fund's reporting and disclosure controls and procedures as of December 31, 2009. It was concluded that the controls and procedures are effective in ensuring the information disclosed in the financial statements, the annual information form and other filings to the Canadian securities regulatory authorities are accurate, complete and filed within the mandated timelines. These reporting and disclosure controls provide reasonable assurance the information Pembina is required to disclose is appropriately accumulated and communicated to Pembina's management, Board of Directors and investors in a timely manner.

The certifying officers are also responsible for establishing and maintaining internal controls related to financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of Pembina's financial reporting and compliance with GAAP. Pembina's Chief Executive Officer and the Chief Financial Officer have designed and evaluated the effectiveness of such controls and confirm there have been no changes during the year that have materially affected the Fund's internal controls over financial reporting. In 2009, Pembina implemented a new business-wide information technology system. This implementation delivered improved, standardized and integrated company-wide processes that enhanced control and efficiency.

In February 2008, the Accounting Standards Board ("AcSB") confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Details about Pembina's progress in the IFRS conversion project during 2009 can be found on page 31.

CONSOLIDATED FINANCIAL RESULTS

	2009	2008
Years ended December 31, 2009 and 2008 (\$ millions, except per Trust Unit amounts)		
Revenue	811.8	674.8
Less: product purchases	314.4	220.9
Net revenue ⁽¹⁾	497.4	453.9
Operating expenses	159.2	150.9
Net operating income ⁽¹⁾	338.2	303.0
Deduct/(add):		
General and administrative	51.4	38.6
Depreciation and amortization	69.8	72.1
Accretion on asset retirement obligations	6.6	5.0
Internalization of management contract		13.8
Gain on sale of linefill and other	0.3	(42.3)
Interest on long-term debt	48.9	39.4
Interest on convertible debentures	3.0	3.4
Future income tax expense (reduction)	(3.9)	11.1
Net earnings	162.1	161.8
Net earnings per Trust Unit – basic (dollars per Trust Unit)	1.09	1.21

(1) Refer to "Non-GAAP Measures" on page 8.

Revenue, net of product purchases, for 2009 was \$497.4 million, compared to \$453.9 million in 2008. The increase was primarily the result of new revenues generated by the Horizon Pipeline in 2009 (Pembina completed construction of the Horizon Pipeline in July 2008); the Cutbank Complex (acquired in June 2009) and selective toll increases within the Conventional Pipelines business. The toll increases were implemented to maintain operating margins and offset lower 2009 conventional throughputs. (For further information about throughput averages, see page 19).

Operating expenses in 2009 were \$159.2 million, compared to \$150.9 million in 2008. Increased operating expenses were largely a result of the addition of the Horizon Pipeline and the Cutbank Complex, and related specifically to higher labour costs, materials and services and property taxes. This increase was offset by reduced operating expenses in the Conventional Pipelines business primarily relating to decreased spending for discretionary maintenance. As a result, net operating income for 2009 was \$338.2 million, as compared to \$303 million in 2008.

Net earnings in 2009 were \$162.1 million, compared to \$161.8 million in 2008 when Pembina realized a one-time \$29.9 million after-tax gain on sale of linefill. Excluding that after-tax gain, net earnings have increased 23 percent in 2009 over 2008.

Cash flow from operating activities was \$224.6 million in 2009, compared to \$219.9 million in 2008. For more information about cash flow from operating activities, see page 24.

OPERATING RESULTS

(\$ millions)	2009		2008	
	Revenues	Net operating income ⁽¹⁾	Revenues	Net operating income ⁽¹⁾
Conventional Pipelines	255.0	150.4	263.4	150.2
Oil Sands & Heavy Oil	115.6	81.6	85.4	56.7
Midstream & Marketing ⁽²⁾	126.8	106.2	105.1	96.1
Total	497.4	338.2	453.9	303.0

(1) Refer to "Non-GAAP Measures" on page 8.

(2) Midstream & Marketing revenue is net of \$314.4 million in product purchase expense for 2009 (2008: \$220.9 million). Results for Midstream & Marketing in 2009 includes contribution from the Cutbank Complex from June 1, 2009 to December 31, 2009.



2009 Conventional Throughput

(Average barrels per day)

● Conventional Crude Oil	277,198
● Natural Gas Liquids	116,052
Total	393,300



2009 Net Operating Income⁽¹⁾

(\$ millions)

● Conventional Pipelines	150.4
● Oil Sands & Heavy Oil	81.6
● Midstream & Marketing	106.2
Total	338.2

(1) Refer to "Non-GAAP Measures" on page 8.

CONVENTIONAL PIPELINES

	2009	2008
(\$ millions, except where noted)		
Revenue	255.0	263.4
Operating expenses	104.6	113.2
Net operating income ⁽¹⁾	150.4	150.2
Capital expenditures	27.7	44.8
Average throughput (thousands of bbls/d)	393.3	439.2
Operating expenses (\$/bbl)	0.68	0.66
Average revenue (\$/bbl)	1.65	1.55

(1) Refer to "Non-GAAP Measures" on page 8.

During 2009, Pembina's Conventional Pipelines transported an average of 393,300 bbls/d, compared to 439,200 bbls/d during 2008. The decline in throughput was mainly due to the year-over-year reduction in crude oil and NGL production in the upstream energy industry that occurred as a result of softer commodity prices, changes in the Alberta royalty regime and limited access to credit and equity markets for many energy companies. For more information about management's view of future throughputs, see page 19.

Conventional Pipelines generated revenue of \$255 million during 2009, compared to \$263.4 million in 2008. Revenues were down primarily as a result of decreased throughput, discussed above, offset by selective toll increases.

Operating expenses in 2009 totaled \$104.6 million, compared to 2008 when operating expenses were \$113.2 million. This decrease was primarily the result of lower spending on maintenance, materials and services, offset by increases in labour. While preserving commitments to pipeline integrity, safe and reliable operations, the Conventional Pipelines business was able to match decreased revenue resulting from throughput declines with an \$8.6 million reduction in operating expenses for 2009. This business also managed expenses by hedging its power needs. Since 2002, Conventional Pipelines has passed power hedging savings of \$21 million through to customers.

Net operating income in 2009 was \$150.4 million, compared to 2008 net operating income of \$150.2 million for the aforementioned reasons.

In 2009, capital expenditures within the Conventional Pipelines business totaled \$27.7 million, compared to \$44.8 million in 2008. For more information about Pembina's 2009 capital spending program, see page 27.

OIL SANDS & HEAVY OIL

	2009	2008
(\$ millions, except where noted)		
Revenue	115.6	85.4
Operating expenses	34.0	28.7
Net operating income ⁽¹⁾	81.6	56.7
Capital expenditures	82.1	133.8
Capacity under contract (thousands bbls/d)	775.0	775.0

(1) Refer to "Non-GAAP Measures" on page 8.

Pembina's Oil Sands & Heavy Oil business owns and operates three pipelines that provide support to oil sands producers operating near Fort McMurray, Alberta: the Syncrude Pipeline, the Cheecham Lateral, and the Horizon Pipeline. The agreements with the customers with whom these assets are contracted, provide Pembina with a fixed return on invested capital and allow for the full recovery of operating expenses. As such, net operating income from these pipelines is not throughput dependent.

Syncrude Pipeline Pembina's Syncrude Pipeline has a capacity of 389,000 bbls/d and is fully contracted to the owners of Syncrude Canada Ltd. under an extendible, long-term agreement, which expires at the end of 2035. Net operating income generated by the Syncrude Pipeline during 2009 was \$30.4 million, compared to \$40.2 million in 2008. The decrease is primarily the result of the sale of linefill in 2008.

Cheecham Lateral Pembina's Cheecham Lateral has a capacity of 136,000 bbls/d and is fully contracted to shippers under the terms of a 25-year agreement, which expires in 2032. Net operating income generated by the Cheecham Lateral during 2009 was \$4.6 million, consistent with 2008.

Horizon Pipeline The Horizon Pipeline is fully contracted to CNRL and has a capacity of 250,000 bbls/d. The Horizon Pipeline is operated under the terms of a 25-year extendible contract, which expires in 2033. Net operating income generated by the Horizon Pipeline during 2009 was \$46.6 million, compared to \$11.9 million in 2008. The increase is largely due to a full year of revenue generated by Horizon; Pembina completed construction of this pipeline in July 2008.

Operating expenses for the Oil Sands & Heavy Oil business in 2009 were \$34 million, compared to \$28.7 million in 2008. This increase primarily reflects operation of the Horizon Pipeline and the corresponding increase in maintenance costs, labour and property taxes. This increase was offset by a decline in power costs. All operating expenses are recovered in this business.

In 2009, capital expenditures within Oil Sands & Heavy Oil (including \$68.7 million in capital for the Nipisi and Mitsue Pipeline projects) totaled \$82.1 million, compared to \$133.8 million in 2008 when the Horizon Pipeline was under construction. For more information about Pembina's 2009 capital spending program, see page 27.

MIDSTREAM & MARKETING

	2009	2008
(\$ millions, except where noted)		
Revenue	441.2	326.0
Less: product purchases	314.4	220.9
Net revenue	126.8	105.1
Operating expenses	20.6	9.0
Net operating income ⁽²⁾	106.2	96.1
Capital expenditures	35.9	42.0
Capital expenditures related to Cutbank Complex acquisition	274.0	
Average Cutbank Complex processing volume (mmcf/d) ⁽¹⁾	197.4	

(1) Pembina acquired the Cutbank Complex in June 2009. As a result, there are no comparable numbers available for 2008 and 2009 data reflects only seven months of operations.

(2) Refer to "Non-GAAP Measures" on page 8.

The Midstream & Marketing business recorded revenue, net of product purchases, of \$126.8 million during 2009, compared to \$105.1 million during 2008. The increase was primarily due to new revenues generated by the Cutbank Complex gas gathering and processing facilities acquired in June 2009. (For more information about the Cutbank Complex, see "New Developments and Outlook" on page 18). Expansion of midstream services in Alberta at Gordondale, Valleyview, the Namao Hub and a full year of truck terminal operations at Buck Creek also contributed to increased revenue. Offsetting these positive factors were market volatility and soft commodity prices, which impacted the revenues generated for storage, terminals and hub services.

Midstream & Marketing operating expenses in 2009 were \$20.6 million, compared to 2008 when operating expenses totaled \$9 million. The increase in operating expenses relates to \$10 million in labour, materials and services costs associated with the Cutbank Complex, which flow through to customers under various service agreements. Excluding operating expenses related to the Cutbank Complex, operating expenses for this business were materially consistent year-over-year.

The Midstream & Marketing business contributed \$106.2 million in net operating income during 2009, compared to \$96.1 million the prior year. Net operating income was impacted by the same factors that impacted revenue. Net operating income generated by the Cutbank Complex from June to December 2009 was \$23 million and net operating income generated from the Fort Saskatchewan Ethylene Storage Facility remained generally consistent year-over-year (\$17.6 million in 2009, compared to \$17.7 million in 2008). The Fort Saskatchewan Ethylene Storage Facility is operated under a 20-year renewable contract maturing in June 2023 with its two principal facility customers. The contract terms provide for full operating cost recovery plus a fixed return on invested capital.

In 2009, capital expenditures within Midstream & Marketing were \$35.9 million, compared to \$42 million in 2008. (This does not include the acquisition capital for the Cutbank Complex of \$274 million.) For more information about Pembina's 2009 capital spending program, see page 27.

NEW DEVELOPMENTS AND OUTLOOK

CORPORATE CONVERSION

Pembina's Board of Directors intends to seek Unitholder approval for converting the Fund into a corporation at its annual general and special meeting May 7, 2010. To be implemented, the conversion must be approved by not less than two-thirds of the votes cast by Unitholders at the meeting. Subject to receipt of all required stock exchange, regulatory and Court of Queen's Bench approvals and receipt of the consent of Pembina's lenders, management expects the conversion could become effective as early as July 1, 2010, and not later than December 31, 2010.

Pembina believes the conversion to a corporation will provide the following benefits:

- Completion of the conversion will avoid imposition of the specified investment flow-through (SIFT) tax applicable beginning in 2011.
- The removal of the restrictions on non-resident ownership applicable to income trusts may provide Pembina with greater access to capital markets and improved liquidity.
- A simplified corporate structure, which is easier for market participants to understand and value.
- The "normal growth" and "undue expansion" restrictions generally applicable to income trusts under the SIFT rules will no longer apply, providing Pembina greater flexibility to pursue opportunities for growth and expansion.
- Cash distributions will be made as a dividend following completion of the conversion and this is expected to provide eligible Canadian investors with an enhanced dividend tax credit. Pembina anticipates a dividend of \$1.56 per share per year through 2013.

Under the conversion, Unitholders will exchange each Pembina Trust Unit they hold for one common share in Pembina Pipeline Corporation. Based on a preliminary assessment of tax implications, this is expected to be considered a tax-deferred reorganization for Canadian investors; for U.S. investors, the exchange may qualify as a generally tax-deferred reorganization and as such no gain or loss will be recognized. This information is not intended to be, and should not be construed as tax advice and investors should consult with financial advisors, legal counsel or accountants regarding the tax consequences of the exchange and dividend payments.

The decision to convert to a corporate entity results from a Government of Canada decision in 2006 that introduced legislation designed to change the taxation of certain SIFTs, more commonly referred to as income trusts. In response to this change, after detailed consideration of the various options available to the Fund, Pembina's Board determined conversion from an income trust to a corporate entity will best serve the interests of Pembina and its Unitholders.

Additional information in respect of the proposed corporate conversion, including a description of all third-party consents and other regulatory approvals required for the corporate conversion to be completed, will be contained in the Fund's annual management information circular. The information circular will be mailed to Unitholders and posted on www.sedar.com and www.pembina.com. See "Risk Factors" on page 35 and "Forward-looking Statements and Information" on page 40.

DISTRIBUTION AND DIVIDEND SUSTAINABILITY

Since August 2008, Pembina has provided Unitholders with \$0.13 per unit per month. Based on what Pembina believes are solid fundamentals in each of its businesses and a large inventory of growth opportunities, Pembina expects this level of distribution can be continued through 2013 (in the form of a dividend post corporate conversion). For information regarding assumptions made by Pembina in this respect and the related risks associated with these assumptions, see "Forward-looking Statements and Information" on page 40.

NIPISI AND MITSUE PIPELINE PROJECTS

Pembina's priority development projects in 2010 are the Nipisi and Mitsue Pipelines. These projects were initiated in response to industry demand for heavy oil take-away from and reliable diluent supply to, the Peace River, Alberta region.

Pembina expects the 20,000 bbls/d Mitsue Pipeline to require approximately 135 kilometres of new pipeline and approximately 120 kilometres of existing pipeline to transport condensate from Whitecourt, Alberta, to north of the Town of Slave Lake, Alberta. The Nipisi Pipeline, which requires constructing a 190 kilometre system designed to carry diluted heavy oil, is planned to originate north of the Town of Slave Lake, Alberta and end at Pembina's Judy Creek pump station, south of Swan Hills, Alberta. From Judy Creek, the new system will connect to an existing pipeline to deliver product to the Edmonton, Alberta area.

In March 2009, following an extensive customer consultation process, Pembina's Board of Directors approved a plan to expand the design capacity of the Nipisi Pipeline to an ultimate capacity of 200,000 bbls/d from the original plan of 100,000 bbls/d. As a result, Pembina increased the combined capital estimate for the Nipisi and Mitsue Pipelines to approximately \$440 million, from the original estimate of \$400 million. The capital cost increase allows for larger capacity pipe to be installed during construction. However, to achieve volumes of 200,000 bbls/d, Pembina will need to invest further capital on pump stations and these investments would likely occur in stages as customer demand for transportation increases. Project economics related to construction materials and labour costs for both Nipisi and Mitsue appear to be benefiting from the economic downturn. As of the end of 2009, engineering on both projects was 80 percent complete and Pembina had entered into procurement agreements that generated cost certainty for 60 percent of the project.

Pembina has executed long-term transportation services agreements which will govern operations on the Nipisi and Mitsue Pipelines once they have been completed. Founding customers, CNRL and Cenovus Energy Inc. (formerly EnCana Corporation) have, subject to certain conditions, contracted capacity on both the Nipisi and Mitsue Pipelines. Pembina Midstream Limited Partnership, a subsidiary of Pembina Pipeline Corporation, also has capacity on these pipelines under contract and aims to retain third-party production. The agreements with the anchor customers are designed to provide Pembina with full recovery of operating expenses proportionate to capacity under contract once service on the pipelines has begun. Based on certain assumptions, Pembina's internal projections estimate the two projects combined will generate approximately \$45 million per annum in net operating income. Readers are cautioned that this amount is based on Pembina's current assumptions, estimates, expectations and projections and that actual results may differ materially. See "Forward-looking Statements and Information" on page 40.

Pembina's plans for Nipisi and Mitsue are subject to regulatory approval and all necessary applications have been submitted to regulators, including the Energy Resources and Conservation Board (Alberta). Pembina continues to consult with stakeholders on the projects through various means including traditional land use and environmental impact studies. Construction is expected to begin in late 2010 once regulatory approval has been granted. Pembina anticipates the Nipisi and Mitsue Pipelines to be placed into service in mid-2011.

CUTBANK COMPLEX

On June 2, 2009, Pembina completed the acquisition of the Cutbank Complex gas gathering and processing facilities from Talisman Energy Canada for \$297 million.

Located about 100 kilometres southwest of Grande Prairie, the Cutbank Complex is a fully interconnected sweet gas gathering and processing complex consisting of three gas plants (the Cutbank, Musreau and Kakwa gas plants), nine compressor stations and approximately 300 kilometres of gathering systems. The Cutbank gas plant and the Musreau gas plant are 100 percent and 86 percent owned and operated by Pembina and the Kakwa gas plant, in which Pembina acquired a 50 percent interest, is operated by a third-party.

Total gross processing capacity from the Cutbank Complex is 360 mmcf/d (of this, 305 mmcf/d is net to Pembina). The Cutbank Complex, which is interconnected to Pembina's Peace Pipeline system, provides fee for service gathering and processing with flow through of operating expenses to customers and has no direct commodity price exposure.

The acquisition of the Cutbank Complex is consistent with Pembina's overall strategy of growth and integration of its energy infrastructure assets. Pembina expects this acquisition will further diversify the company's operations, deliver a long-term growth profile and provide potential organic and additional acquisition growth opportunities. Pembina plans to grow this business by:

- Exploiting the existing capacity at the Complex (the capacity net to Pembina is 305 mmcf/d; in 2009 average throughput net to Pembina was 197.4 mmcf/d);
- Seeking and developing accretive business opportunities to expand the existing asset base through gathering system extensions, compression additions and process enhancements;
- Capitalizing on opportunities to enhance the gas and liquid services available at the Cutbank Complex;
- Providing new services that integrate with Pembina's Conventional Pipelines and Midstream & Marketing businesses; and
- Acquiring and/or building new gas services assets beyond the Cutbank Complex.

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

OIL SANDS & HEAVY OIL

Based on the Canadian Association of Petroleum Producers (CAPP) June 2009 forecast and market outlook, oil sands production makes up just over half of Western Canada's total crude oil production. This production is expected to grow from over 1.2 million bbls/d in 2008 to approximately 2.2 million bbls/d in 2015 and to about 3.3 million bbls/d in 2025. Pembina believes it is well positioned to expand its Oil Sands & Heavy Oil business to support this growth and plans to pursue opportunities for further development.

CONVENTIONAL PIPELINES THROUGHPUT

In 2009, throughputs in Pembina's Conventional Pipelines business were lower compared to 2008 (see page 14). This decline was primarily the result of reduced crude oil and NGL production in the upstream sector, a reflection of the downturn in commodity prices, changes in the Alberta royalty regime and limited access to credit and equity markets for many energy companies.

As the economy strengthened in late 2009 and early 2010, crude oil prices stabilized and this, combined with the Alberta government conducting a competitiveness review that could impact the royalty regime (results of which are expected to be released in March 2010), has generated a more optimistic outlook for Western Canada's energy industry. For example, forecasts made by the Petroleum Services Association of Canada in January 2010 indicate that drilling in Alberta in 2010 is expected to be up four percent over 2009, while drilling in British Columbia is expected to increase by ten percent. Pembina expects this increased drilling activity could result in higher rates of crude oil and NGL production, which in turn could generate additional throughput volumes to be transported by its Conventional Pipelines business.

In particular, opportunities for increased throughput and new tie-ins may occur in the Drayton Valley, Alberta area as the application of horizontal drilling and multistage-fracturing technology shows promise for rejuvenating production from the Cardium oil formation underlying Pembina's Drayton Valley pipeline system. The Cardium oil formation has been producing oil and gas for more than 50 years. The potential of this technology to unlock significant reserves remaining has attracted increased interest in development. If production is generated through this development, Pembina's Drayton Valley pipeline would be well situated to transport the new volumes and could manage the tie-ins and additional volumes without material, incremental capital investment.

CARBON CAPTURE AND SEQUESTRATION

In 2009, the Alberta government announced it will commit approximately \$2 billion in funding towards the development of carbon capture and sequestration projects. Use of captured carbon dioxide (“CO₂”) in enhanced oil recovery has the potential to increase recovery of original oil in place by as much as 15 to 20 percent. As CO₂ flooding may be used to enhance oil recovery in mature fields such as Drayton Valley, Swan Hills and Redwater, Pembina believes it is uniquely positioned to capture increased production that could result from these CO₂ floods, if implemented in such areas.

COMMODITY PRICING AND THE ECONOMY

North America’s energy industry encountered commodity price volatility of an unprecedented scale in 2008 and 2009, with crude oil benchmark prices ranging from a high of US\$147 per barrel West Texas Intermediate (“WTI”) in July 2008, to a low of US\$34 per barrel WTI in February 2009. The average 2009 WTI crude oil price was approximately US\$62 per barrel, compared with an average price of about US\$100 per barrel in 2008, while Alberta Energy Company’s natural gas benchmark spot price (“AECO Spot”) was CND\$3.99 per thousand cubic feet (mcf) in 2009, compared with an average price of CND\$8.15 per mcf AECO Spot in 2008.

Pembina’s business model, which enables a large portion of cash flow from operating activities to be derived from invested capital (and not crude oil and natural gas liquids prices or pipeline capacity utilization) and secured by long-term customer agreements, helped mitigate the impact of commodity price volatility during 2008 and 2009. In addition, Pembina employs comprehensive risk management practices to largely fix and mitigate any residual commercial exposure to these factors.

EXPENSES

GENERAL AND ADMINISTRATIVE

General and administrative expenses were \$51.4 million in 2009, compared to \$38.6 million in 2008. The most significant components of this increase were salaries, a \$3 million charge related to internal restructuring and fees associated with the exploration and implementation of new opportunities and businesses. As Pembina continues to expand its asset base, it faces an increasing number of operational, regulatory and compliance requirements as well as costs associated with the development of future opportunities. These increased demands have required an increase in staff levels in order to ensure sufficient resources are available to execute opportunities and manage day-to-day operations in a reliable and safe manner. As a result, Pembina’s Calgary-based staff grew to 152 people in 2009 from 134 people at the end of 2008. Overall, general and administrative expenses represent 15.2 percent of net operating income and 10.3 percent of net revenues in 2009.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses decreased to \$69.8 million in 2009 from \$72.1 million in 2008. The decrease is largely a result of a complete review of the estimated remaining useful economic lives for Pembina’s assets and the disposition of certain non-critical assets. Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 33 years (an average of 27.5 years) or declining balance method at rates ranging from 3 percent to 33 percent per annum (an average rate of 5.3 percent per annum). Storage assets and facilities are depreciated using the straight line method over 40 years. These rates are established to depreciate remaining net book value over the economic lives or contractual duration of the related assets.

Conventional Pipelines and Midstream & Marketing assets and facilities are depreciated on a straight line basis over the estimated service life of the assets. Oil Sands & Heavy Oil assets are depreciated over the life of the long-term transportation agreements under which these systems are administered. The transportation agreement in respect of the Syncrude Pipeline is set to expire at the end of 2035, the transportation agreement in respect of the Cheecham Lateral is set to expire at the end of 2032 and the transportation agreement in respect of the Horizon Pipeline is set to expire July 1, 2033.

ACCRETION ON ASSET RETIREMENT OBLIGATIONS

Accretion on asset retirement obligations was \$6.6 million in 2009 compared to \$5 million in 2008. This increase was due to the increase in the asset retirement obligation (which is evaluated on an annual basis) for estimates related to the ultimate retirement expense of facilities. In 2009, the annual re-evaluation resulted in an increase in future undiscounted costs to \$800 million from \$525 million in 2008, increasing the obligation and accretion in 2009. This increase was due to additional pipeline connections and facilities and increased costs. Accretion on asset retirement obligations is based on estimates of the operating life and the ultimate retirement expense for facilities. The actual results may differ from these estimations. There were no material facility asset retirements in 2009 or 2008.

INTEREST EXPENSE AND FINANCIAL INSTRUMENTS

Interest expense for long-term debt for 2009 was \$48.9 million compared to \$39.4 million in 2008. The increase in interest expense is due to the increase in average debt outstanding throughout the year. Outstanding total debt at the end of 2009 was approximately \$1.1 billion, compared to the 2008 closing balance of \$0.9 billion. The increase in debt is mostly due to the financing of development capital expenditures, which in 2009 was primarily incurred to fund the Cutbank Complex acquisition and the Nipisi and Mitsue Pipeline projects. In 2009, interest of \$1.4 million relating to development projects was capitalized compared to \$8 million in 2008. At year end 2009, Pembina had \$200 million in interest rate swaps outstanding on its variable rate bank borrowing, with an average rate of 4.4 percent and an average remaining term to expiration of 6.16 years. The unrealized mark-to-market loss on the interest rate swaps was \$6.1 million as at December 31, 2009. Including the interest swaps, interest rates on \$1 billion in senior secured and unsecured notes have been fixed, leaving approximately 14 percent of Pembina's outstanding debt exposed to interest rate fluctuations.

CONVERTIBLE DEBENTURES

Interest paid on Pembina's outstanding convertible debentures was \$3 million in 2009, compared to \$3.4 million in 2008. The decrease is due to the conversion of a number of the 7.35 percent convertible debentures into Trust Units. In 2009, \$4.2 million in convertible debentures were converted into Trust Units, reducing the total principal amount outstanding, net of issue costs, from \$40.9 million at December 31, 2008 to \$36.6 million at December 31, 2009, represented by the 7.35 percent debentures convertible at \$12.50 per unit, maturing December 31, 2010. Given the trading price of the Trust Units consistently remains above the conversion price for the debentures, Pembina anticipates the conversion of the debentures will continue until the debentures mature on December 31, 2010.

INCOME TAXES

As the Fund is a Unit Trust for income tax purposes, the Fund is taxable on income that is not distributed to Unitholders. Pursuant to its Declaration of Trust, the Fund may distribute all or any part of its income to the Unitholders, subject to maintaining sufficient working capital reserves. However, the subsidiaries of the Fund are taxable entities and any income tax expenses or future income tax liabilities reported in the consolidated financial statements of the Fund are those of the subsidiaries.

As at December 31, 2009, the future income tax liabilities of the Fund's subsidiaries totaled \$95.9 million. These liabilities are determined by applying future statutory income tax rates to the differences between the book values and the tax values of the capital assets, deferred partnerships' taxable income, carryforward losses generated by Pembina Pipeline Corporation plus other minor differences between book and tax values. The differences arose either at the time of the initial acquisition of the assets on the establishment of the trust or on subsequent acquisitions. Upon recognition of the future income tax liability, an equivalent amount was allocated to goodwill as the estimated depreciated replacement cost of the acquired assets approximated the book value of those assets. The future income tax reduction of \$3.9 million in 2009 represents the change between the book value and the tax value of the acquired assets at the future statutory income tax rates plus other minor timing differences.

PENSION LIABILITY

The Fund's subsidiary, Pembina Pipeline Corporation, maintains non-contributory defined benefit pension plans together with a defined contribution plan and an unfunded supplemental retirement plan covering 427 employees and 103 retirees. At the end of 2009, the pension plans carried a deficit of \$2.1 million, compared to a deficit of \$0.7 million at the end of 2008. At December 31, 2009, plan obligations amounted to \$80.9 million (2008: \$61.4 million), compared to plan assets of \$78.8 million (2008: \$60.7 million). In 2009, the pension plans expense was \$3.9 million, compared to \$4.3 million in 2008. Contributions to the pension plans totaled \$10 million in 2009, compared to \$3.8 million in 2008.

The accrued pension plans asset of \$17.8 million (2008: \$11.7 million) represents the net difference between the amounts required to be expensed in the Fund's financial statements and the amount contributed to the pension plans. In 2010, contributions to the pension plan are expected to be \$6.6 million and pension plans expenses are anticipated to be \$5.7 million. Management anticipates a long-term return on the pension plans assets of 6.3 percent and an annual increase in compensation of 6 percent, which are consistent with current industry standards.

DISTRIBUTED CASH

	2009	2008
Years ended December 31, 2009 and 2008 (\$ millions, except where noted)		
Cash flow from operating activities	224.6	219.9
Add/(deduct):		
Employee future benefits expense	(3.9)	(4.3)
Employee future benefits contributions	10.0	3.8
Changes in non-cash working capital	3.7	(11.4)
Other	0.3	(0.8)
Distributable cash ⁽¹⁾	234.7	207.2
Increase in distribution reserve	(2.4)	(8.4)
Distributed cash ^{(1) (2)}	232.3	198.8
Distributable cash ⁽¹⁾ (before reserve) (dollars per Trust Unit)	1.58	1.55
Distributed cash per Trust Unit ⁽¹⁾ (dollars per Trust Unit)	1.56	1.49
Diluted distributed cash per Trust Unit ⁽¹⁾ (dollars per Trust Unit)	1.52	1.46
Payout ratio (%) ⁽²⁾	99%	96%

(1) Refer to "Non-GAAP Measures" on page 8.

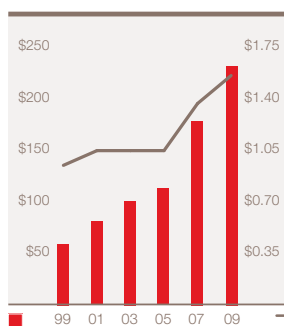
(2) Approximately \$10.4 million of the increase in distributed cash during 2009 was due to the use of Pembina's DRIP (see definition on page 24) to pre-fund the Nipisi and Mitsue Pipeline projects. Excluding the \$10.4 million pre-funding impact on distributed cash, the payout ratio would be 94.5% for 2009.

2009 CASH DISTRIBUTIONS TO UNITHOLDERS ⁽¹⁾

Record Date	Payment Date	Taxable Other Income	Non-Taxable Amount	Total
(In dollars)				
January 31, 2009	February 13, 2009	0.098509	0.031491	0.13
February 28, 2009	March 13, 2009	0.098509	0.031491	0.13
March 31, 2009	April 15, 2009	0.098509	0.031491	0.13
April 30, 2009	May 15, 2009	0.098509	0.031491	0.13
May 31, 2009	June 15, 2009	0.098509	0.031491	0.13
June 25, 2009	July 15, 2009	0.098509	0.031491	0.13
July 25, 2009	August 14, 2009	0.098509	0.031491	0.13
August 25, 2009	September 15, 2009	0.098509	0.031491	0.13
September 25, 2009	October 15, 2009	0.098509	0.031491	0.13
October 25, 2009	November 13, 2009	0.098509	0.031491	0.13
November 25, 2009	December 15, 2009	0.098509	0.031491	0.13
December 31, 2009	January 15, 2010	0.098509	0.031491	0.13
		1.18212	0.37789	1.56

(1) Refer to "Non-GAAP Measures" on page 8.

Distributed Cash & Distributed Cash per Trust Unit ⁽¹⁾



■ Distributed Cash (\$ millions)
 — Distributed Cash per Trust Unit (\$ per Trust Unit)

(1) Refer to "Non-GAAP Measures" on page 8.

Per the Canadian Income Tax Act, of the total distribution of \$1.56 per Trust Unit declared in 2009, \$1.18212 per Trust Unit, or 75.78 percent, is taxable as "other income" and \$0.37789 per Trust Unit, or 24.22 percent, is non-taxable. For the majority of Unitholders, the non-taxable portion is considered a return of capital, which will reduce the cost base of each Trust Unit held by such Unitholders. Pembina projects these proportions in 2010, prior to the planned conversion to a corporation, will be approximately 75 percent of the total distribution per Trust Unit being taxable as "other income" and the remaining 25 percent as non-taxable return of capital.

In addition, it is the Canada Revenue Agency's administrative position that for Unitholders participating in the regular distribution reinvestment component of Pembina's Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP"), the five percent discount at which additional units are acquired is considered income in the hands of the Unitholder. Further, Pembina expects the two percent premium earned under the premium distribution component of the DRIP will continue to be taxed as income in the future.

The table below shows the Fund's cash distributions paid relative to cash flow from operating activities and net earnings for the years indicated. See also "New Developments and Outlook" on page 17, "Risk Factors" on page 34 and "Forward-looking Statements and Information" on page 40 for further information regarding the sustainability of cash distributions.

CASH FLOW FROM OPERATING ACTIVITIES AND NET EARNINGS COMPARED TO DISTRIBUTED CASH

	2009	2008	2007	2006
(\$ millions)				
Cash flow from operating activities	224.6	219.9	189.5	143.9
Net earnings	162.1	161.8	142.3	88.9
Distributed cash ⁽¹⁾	232.3	198.8	178.9	142.3
Excess (shortfall) of cash flow from operating activities over distributed cash	(7.7)	21.1	10.6	1.6
Excess (shortfall) of net earnings over distributed cash	(70.2)	(37.0)	(36.6)	(53.4)

(1) Refer to "Non-GAAP Measures" on page 8.

The continued growth in distributed cash reflects the growth in both Pembina's asset base and the Unitholder base. Distributed cash in 2009 was \$232.3 million, compared to \$198.8 million in 2008, and was funded exclusively from operating activities. Annual cash distributions per Trust Unit increased to \$1.56 in 2009 from \$1.49 in 2008.

Historical cash distributions compared to cash flow from operating activities shows excess cash flow in every period except in 2009. The shortfall of \$7.7 million in 2009 was primarily due to changes in non-cash working capital and the use of the DRIP to pre-fund the Nipisi and Mitsue Pipeline projects which impacted distributed cash by \$10.4 million. Cash distributions to Unitholders are greater than net earnings, as the Fund does not consider it necessary to retain non-cash depreciation that has been deducted in the determination of net earnings. Pembina generally does not expect the earning capacity of the Fund's existing assets to erode or to be replaced provided they are properly maintained. Such maintenance costs are deducted in the calculation of net earnings. Capital additions increase the earning capacity of the Fund and are financed in either the debt or equity markets and are not dependent on cash flow from existing operating activities.

NON-RESIDENT UNITHOLDERS

Current domestic tax laws require a withholding tax from distribution income to non-residents of Canada at a rate of 25 percent. The withholding rate on income may be reduced pursuant to a bilateral income tax convention between Canada and the country in which the Unitholder is resident. For residents of the United States, the withholding tax is reduced to 15 percent on trust income distributions. Such income is determined in accordance with the laws of Canada. It is important for Unitholders to contact their brokers or financial institution with regards to the amount of withholding tax that is being deducted, as it is Pembina's understanding the withholding tax is determined by the financial institution where the Trust Units are held. Accordingly, Pembina does not comment on the impact of relevant tax laws in various jurisdictions of residence but advises Unitholders to seek tax advice in this regard.

LIQUIDITY AND CAPITAL RESOURCES

	2009	2008
(\$ millions)		
Working capital	72.1	(4.6)
Variable rate debt		
Bank debt	359.0	390.0
Senior unsecured notes		75.0
Variable rate debt swapped to fixed	(200.0)	(200.0)
Total variable rate debt outstanding (2009: average rate of 2.99%)	159.0	265.0
Fixed rate debt		
Senior unsecured notes	717.0	375.0
Senior secured notes	73.4	80.3
Variable rate debt swapped to fixed	200.0	200.0
Total fixed rate debt outstanding (2009: average rate of 5.67%)	990.4	655.3
Convertible debentures	36.6	40.9
Total debt and debentures outstanding	1,186.0	961.2
Cash and unutilized debt facilities	394.9	140.0

Pembina's capital management objectives are aligned with its growth strategies and long-term outlook for its businesses. Pembina aims to maintain stable cash distributions to Unitholders over economic and industry cycles, a flexible capital structure which optimizes the cost of capital within an acceptable level of risk and an investment grade credit rating.

Pembina anticipates cash flow from operating activities will be more than sufficient to meet its short-term operating obligations and fund the targeted distribution level. In the medium-term, funds required for capital projects are expected to be sourced from existing undrawn credit facilities of \$394.9 million and continuation of the DRIP, which raised \$142.6 million during 2009. In the event of additional significant projects or acquisitions, Pembina believes, based on its successful access to financing in the debt and equity markets during 2009, that it would likely continue to have access to funds at attractive rates. Management remains satisfied the leverage employed in Pembina's capital structure at the end of 2009 is sufficient and appropriate given the characteristics and operations of the underlying asset base.

Management may make adjustments to the Fund's capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the Fund's capital structure in the future, Pembina may renegotiate new debt terms, repay existing debt and seek new borrowing and/or issue equity.

Pembina's credit facilities as at December 31, 2009 consisted of an unsecured \$500 million revolving credit facility due July 2012 and an unsecured \$150 million non-revolving credit facility due December 2010, which was used to partially fund the Cutbank Complex transaction in the second quarter of 2009. In addition, Pembina has an operating facility of \$50 million, which matures July 2010. There are no repayments due over the term of either facility. As at December 31, 2009, Pembina had \$359 million drawn on bank debt (including letters of credits of \$9 million), leaving \$394.9 million of cash and unutilized debt facilities on the \$700 million of established bank facilities. Borrowings bear interest at either prime lending rates or bankers' acceptances, plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from zero percent to 2.75 percent. Other debt includes \$175 million in fixed rate Senior

Unsecured Notes, Series A due 2014, \$75 million in senior unsecured non-revolving term facility due 2014, \$73.4 million in fixed rate Senior Secured Notes due 2017, Series C \$267 million in Senior Unsecured Notes, Series D due 2018 and \$200 million in fixed rate Senior Unsecured Notes due 2021. At December 31, 2009, Pembina had long-term debt (excluding deferred financing fees) of approximately \$1.1 billion compared to \$0.9 billion at the end of 2008. This long-term debt, together with \$36.6 million of outstanding convertible debentures, resulted in a ratio of total debt to total enterprise value of 30.1 percent, compared to a ratio of 32.1 percent at December 31, 2008 (see “Non-GAAP Measures” on page 8). In 2009, \$9.4 million in net debt financing costs were recorded, compared to \$6.6 million in 2008.

On May 20, 2009, Pembina issued 12,694,000 Trust Units at a purchase price of \$13.00 per Trust Unit for gross proceeds of \$165 million. Proceeds from the issuance were used to partially fund the acquisition of the Cutbank Complex.

Payments of interest and principal on Pembina bank indebtedness and senior notes ranks in priority to monthly cash distributions to be paid to Unitholders.

In July 2009, the Fund announced it filed a Short Form Base Shelf Prospectus with Canadian regulatory authorities in each of the provinces of Canada. Under provisions detailed in the Short Form Base Shelf Prospectus, the Fund may offer and issue, from time to time: (i) Trust Units; (ii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of the Fund (“Debt Securities”); (iii) warrants to purchase Trust Units and warrants to purchase Debt Securities; and (iv) subscription receipts of the Fund (collectively, the “Securities”) of up to \$1 billion aggregate initial offering price of Securities during the 25 month period that the shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more shelf prospectus supplements.

Pembina considers the maintenance of an investment grade credit rating as critical to its ongoing ability to access capital markets on attractive terms. The Dominion Bond Rating Service Ltd. (DBRS) stability rating system measures the stability and sustainability of distributions per Trust Unit. DBRS has assigned Pembina Pipeline Income Fund a STA-2 (low) stability rating which was confirmed by DBRS on May 13, 2009. Pembina Pipeline Corporation, the Fund’s primary operating subsidiary, is also rated by DBRS, which has assigned a senior debt rating of ‘BBB high’ on November 3, 2009. On December 22, 2009, Standard & Poor’s (S&P) confirmed its long-term corporate credit and bank loan ratings on Pembina Pipeline Corporation of “BBB+”, and its senior secured debt rating on the company of “A-”, was last confirmed on August 11, 2009, all with a stable outlook. S&P also rates the Fund and has a current rating of SR-2, which rating was last confirmed on November 20, 2009.

The DBRS stability rating system measures the volatility and sustainability of distributions per Trust Unit on a rating scale STA-1 to STA-7 (STA-1 being the highest rating possible). STA-2 rated funds are considered to have very good distribution per Trust Unit stability and sustainability. The BBB rating is the fourth highest of DBRS’ ten rating categories for long-term debt, which range from AAA to D. DBRS uses “high” and “low” designations on ratings from AA to C to indicate the relative standing of securities being rated within a particular rating category. The absence of a “high” or “low” designation indicates that a rating is in the “middle” of the category. The BBB high rating indicates that, in DBRS’s view, the rated securities are of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

The S&P rating system rates distributable cash on a scale of SR-1 to SR-7 with SR-2 rated funds considered to have very high stability. Debt securities rated BBB+ exhibit adequate protection parameters. The A rating is the third highest rating, and the BBB rating is the fourth highest rating, of S&P’s ten rating categories for long-term debt which range from AAA to D. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (–) sign to show relative standing within the major rating categories. Issues of debt

rated A are judged by S&P to be somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still viewed by S&P to be strong. Issues of debt securities rated BBB+ are judged by S&P to exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. These ratings recognize the Fund's stable assets profile and financial results, as well as the stability and sustainability of the per Trust Unit distribution.

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

CAPITAL EXPENDITURES

	2009	2008
(\$ millions)		
Development capital		
Conventional Pipelines	27.7	44.8
Oil Sands & Heavy Oil	13.4	126.9
Nipisi and Mitsue Pipeline projects	68.7	6.9
Total Oil Sands & Heavy Oil	82.1	133.8
Midstream & Marketing (including capital to acquire Cutbank)	309.9	42.0
Corporate / other projects	4.0	2.4
Total development capital	423.7	223.0

Development capital expenditures were \$423.7 million in 2009, compared to \$223 million spent in 2008. This increase occurred primarily as a result of the June 2009 acquisition of the Cutbank Complex gas gathering and processing facilities that had fixed assets of \$274 million (the acquisition cost, including intangibles, was \$297 million). Other spending in 2009 was allocated as follows:

- Conventional Pipelines 2009 capital was invested in new connections and upgrades, pipeline replacement on the Peace Pipeline system and Swan Hills system, and instrumentation and volumetric system upgrades.
- Oil Sands & Heavy Oil 2009 capital of approximately \$3.6 million was invested in new pipeline connections and various projects intended to improve the reliability and productivity of oil sands assets. Approximately \$9.8 million related to Horizon Pipeline costs of which \$1.7 million was spent on upgrades and delivery connections for CNRL and the remaining capital expenditures of \$8.1 million related to the construction of the pipeline. The remainder related to the Nipisi and Mitsue Pipeline projects. For more information, about the Nipisi and Mitsue Pipeline projects, see page 18.
- In addition to the asset acquisition costs for the Cutbank Complex, Midstream & Marketing 2009 capital was invested to expand storage, terminal and hub services at Gordondale and Valleyview (\$17.6 million); upgrade compressors at Cutbank (\$5.7 million); and develop the Namao terminal (\$4 million).
- Spending to support corporate and other projects in 2009 was primarily to implement a new enterprise-wide information technology system.

2010 CAPITAL EXPENDITURES

Pembina has established a \$240 million capital spending plan for 2010. The investments are planned to be allocated as follows:

- Conventional Pipelines: Approximately \$46 million is budgeted for projects to increase capacity at certain sites and improve the operational performance and integrity of Pembina's Peace, Drayton Valley and Western systems.
- Oil Sands & Heavy Oil: Approximately \$4 million is budgeted for pipeline integrity projects. Approximately \$152 million, or about 60 percent of Pembina's capital budget, is allocated for the construction of the Nipisi and Mitsue Pipeline projects.
- Midstream & Marketing: Approximately \$35 million is budgeted for projects to expand terminals, storage facilities and gas processing.

The remainder of Pembina's 2010 capital expenditure budget supports various projects across Pembina's businesses and corporate office.

The 2010 capital expenditure plan is expected to be financed through cash and unutilized debt facilities, Pembina's DRIP and cash flow from operating activities. For more information, see "Liquidity and Capital Resources" on page 25. A large portion of Pembina's cash flow from operating activities is derived from returns on invested capital (and not crude oil prices or pipeline capacity utilization).

Pembina continues to examine other investment opportunities, which pending approval of the Board of Directors, could increase the 2010 capital expenditure budget.

CONTRACTUAL OBLIGATIONS

(\$ millions)	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Office and vehicle leases	18.1	6.1	11.7	0.3	
Long-term debt	1,140.4	157.4	225.8	270.6	486.6
Convertible debentures	36.6	36.6			
Construction commitments	424.4	151.7	272.7		
Total contractual obligations	1,619.5	351.8	510.2	270.9	486.6

Construction commitments noted above include projects Pembina is, subject to certain conditions, contractually committed to construct. This includes work to complete the \$440 million Nipisi and Mitsue Pipeline projects, which as of December 31, 2009 had incurred approximately \$76 million in spending. It also includes approximately \$60 million in construction costs related to the Horizon Pipeline that are expected to be incurred to meet potential increased capacity requirements (about \$30 million is expected to be spent in each of 2011 and 2012).

The long-term debt commitments include a \$150 million non-revolving credit facility due December 31, 2010; \$200 million drawn on the revolving credit facilities due July 2012; \$75 million non-revolving term facility due May 2014; \$175 million in fixed rate Senior Unsecured Notes due June 2014; \$73.4 million balance in fixed rate Senior Secured Notes due August 2017; \$267 million in fixed rate Senior Unsecured Notes due November 2019; and \$200 million in fixed rate Senior Unsecured Notes due September 2021.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the applications of GAAP that have a significant impact on the Fund. Readers are referred to Note 2 of the audited Consolidated Financial Statements as at and for the year ended December 31, 2009, for a description of the Fund's significant accounting policies. The following discussion outlines certain items for which critical estimates must be made in preparing those statements.

DEPRECIATION

Annually, Pembina reviews the estimated useful lives of its property, plant and equipment. Effective January 1, 2009 Pembina revised its estimate of the future useful life of its assets. Overall, the impact of the revision decreased depreciation expense in 2009. Some of the estimates of the economic life of various pipeline systems have been based on projecting future throughputs using historic oil and gas production decline rates and throughputs. The remaining are based on lives of the long-term transportation agreements. Management has assumed these historical trends will continue and that the increased tolls required to offset these decline rates will also remain competitive. However, the actual useful life of the assets may differ from management's original estimates due to higher decline rates, non-competitive tolls and customer requirements. A resulting change in depreciation expense would have a corresponding impact on the net earnings of the Fund.

GOODWILL

Goodwill, which represents the estimated tax costs related to the difference between the fair value and the tax basis of acquired assets, is assessed by the Fund for impairment at least annually. Management estimates the fair value of these assets by discounting the projected future cash flows generated by these assets using the Fund's weighted average cost of capital. If it is determined the fair value of the future cash flows is less than the net book value of the assets at the time of the assessment, an impairment amount would be determined by deducting the fair value of the cash flows from the net book values and applying it against the book balance of goodwill. To date, there has been no impairment of these goodwill values.

ASSET RETIREMENT OBLIGATIONS

Management recognizes the fair value of an estimated asset retirement obligation in the period in which it is incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The estimated fair value is recorded as a long-term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to period earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual cost incurred upon settlement and the recorded liability is recognized as a gain or loss in the Fund's earnings.

ASSET IMPAIRMENT

Management regularly reviews property, plant, equipment and other intangibles to determine if circumstances indicate impairment in the net book value. Impairment is generally considered to have occurred when the fair value of the future cash flows that are to be generated by an asset are less than the net book value of that asset. If impairment has occurred, an impairment charge to earnings is recognized in the amount that the net book value of the asset exceeds its fair value. To date, there has been no impairment in the net book value of Pembina's assets.

PENSIONS AND OTHER POST RETIREMENT BENEFITS

The Fund accrues for its obligations under its employee pension plans and the related costs, net of pension plan assets. The costs of the pension plans and other retirement benefits is actuarially determined using the projected benefit method based on the length of service and reflects management's best estimate of expected pension plan investment performance, salary escalation and retirement ages of employees. The return on the pension plan assets is based on the fair value of those assets. The obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments. The pension expense includes the costs of pension benefits earned during the current year, the interest cost on pension obligations, the return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets. The amortization period covers the expected average remaining service lives of employees covered by the pension plan. The actual costs and projections may differ from management's estimates and any change would have a corresponding effect on the net earnings of the Fund.

FUTURE INCOME TAXES

Income taxes, based on current legislation, are recorded on the liability method of accounting as the subsidiaries are projected to be taxable in the future. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders. Accordingly, no provision for income taxes on the earnings of the Fund has been made.

Future income tax liabilities of subsidiaries are recognized on acquisitions and reflect the difference between the book value and tax value of capital assets at future statutory income tax rates. On recognition, an equivalent amount is allocated to property, plant and equipment or, if the consideration paid approximates the estimate depreciated replacement cost, then the allocation is to goodwill. The future income tax expense represents the change in these amounts and other estimated timing differences during the year. The actual future income tax costs may differ from management's estimate and any change would have a corresponding effect on the net earnings of the Fund.

CHANGES IN ACCOUNTING PRINCIPLES AND PRACTICES

On January 1, 2009 the Fund adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook sections on a prospective basis:

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets (“Section 3064”), which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450 Research and Development Costs. The purpose of this section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets.

Section 3064 increases harmonization of Canadian standards with IFRS and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of the new standard had no impact on Pembina’s financial statements.

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the Accounting Standards Board (“AcSB”) issued CICA Handbook Section 1582 “Business Combinations” (replacing Section 1581 “Business Combinations”) to establish standards for accounting for a business combination that will more closely resemble those under IFRS. Entities adopting Section 1582 will also be required to adopt CICA Handbook Sections 1601 “Consolidated Financial Statements” and 1602 “Non-Controlling Interests” which will replace Section 1600 “Consolidated Financial Statements”. These standards will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders’ equity on the balance sheet. In addition, the income statement of the controlling parent will include 100 percent of the subsidiary’s results and present the allocation between the controlling interest and non-controlling interest. These standards will be effective for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with early application permitted. The changes resulting from adopting Section 1582 will be applied prospectively and the changes from adopting Sections 1601 and 1602 will be applied retrospectively. Management has not fully determined the impact of adopting these standards.

There were no changes in Pembina’s other principles or practices that affected the disclosure of or the accounting for its operations for the year ended December 31, 2009.

FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (“CICA”) Accounting Standards Board (“AcSB”) confirmed in February 2008 that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective January 1, 2011, with early adoption starting in 2009. Although IFRS uses a conceptual framework similar to Canadian GAAP, IFRS will require increased financial statement disclosures.

It is the Fund’s intention to prepare its interim and annual consolidated financial statements in accordance with IFRS from the financial year beginning January 1, 2011. Effective from that date, it is also the Fund’s intention to adopt IFRS as its primary accounting principles. Consequently, the Fund will, from the same point in time, reconcile its primary IFRS Financial Statements to Canadian GAAP, representing a change from its current full Canadian GAAP reporting.

The IFRS conversion plan consists of three phases. A steering committee and a working group have been established and an IFRS conversion plan has been created which includes regular progress reporting to the audit committee and the Board of Directors. A description of each phase and a review of the current status in Pembina's plan to convert to IFRS standards are noted in the table below:

Phase	Key Development	Status
<p>1. Impact Assessment Phase</p> <p>This phase includes an IFRS impact assessment identifying key areas that may be impacted by the transition to IFRS. Areas are to be identified and the impact on the accounting policies, information technology, internal controls over financial reporting, disclosure controls and procedures, business activities and the resources required for the conversion.</p>	Impact assessment identifying key accounting policies that may be impacted by the transition to IFRS. Areas of accounting differences identified to date with the highest potential impact are the accounting for fixed assets, asset retirement obligation, impairment testing and the initial adoption of IFRS under the provisions of IFRS 1, First-time Adoption of IFRS.	Substantially complete
	Full information technology impact assessment.	Complete
	Impact assessment of Internal controls over financial reporting and disclosure controls and procedures.	Initial analysis complete
	Business activity impact assessment including, but not limited to, cost of service agreements, debt agreements, compensation structures and other contracts.	Initial analysis complete
	Identification of required resources.	Complete
<p>2. Impact Analysis and Evaluation Phase</p> <p>In this phase, in addition to a full GAAP analysis, each key area identified in the Impact Assessment Phase will be analyzed, with priority being placed on areas assessed with higher impact.</p>	Draft IFRS financial statements.	Commenced in Q4 2009
	Assessment of impact on financial statement Note disclosure.	Commenced in Q4 2009
	Documentation of impact assessment of additional non-key area IFRS standards.	Commenced in Q1 2010
	Further analysis of impact on internal controls over financial reporting and disclosure controls and procedures.	Substantially complete
	Information technology implementation of IFRS fixed asset subledger and general ledger to accommodate dual reporting in 2010.	Complete
	Initiation of necessary renegotiations of cost of service agreements, debt agreements, covenants, compensation structures and other agreements.	Q2 2010
<p>3. Implementation and Review Phase</p> <p>This phase involves formal authorization processes to approve the recommended accounting policy changes. Training will continue during this phase and an opening IFRS compliant draft balance sheet and financial statement note disclosure will be prepared.</p>	Documentation and approval of IFRS 1 exemptions.	Substantially complete
	Documentation and approval of IFRS Accounting Policies.	Commenced in Q4 2009
	Complete reconciliation from IFRS to Canadian GAAP equity and income.	Q1 2010
	Preparation of the January 1, 2010 opening balance sheet.	Q1 2010
	Preparation of IFRS financial statements for the quarter ending March 31, 2010.	Q2 2010
	Training.	Ongoing

The Fund continues to consult with other industry participants, auditors and external legal counsel in respect to its IFRS conversion plan to ensure it meets or exceeds best practices. As activities progress, Pembina expects to increase the specificity of the disclosure of the accounting policy differences through its interim reports to investors.

TRUST UNIT INFORMATION

	February 26, 2010	December 31, 2009	December 31, 2008
(\$ thousands, except where noted)			
Trading volume and value			
Total volume ⁽¹⁾ (Trust Units)	11,366,943	80,236,717	54,477,506
Average daily volume ⁽¹⁾ (Trust Units)	291,460	319,668	216,181
Value traded ⁽¹⁾	201,749	1,185,974	884,059
Trust Units outstanding (Trust Units)	161,224,593	158,588,699	134,703,067
Trust Unit trading price (dollars)	18.05	17.52	15.24
Market value			
Trust Units	2,910,093	2,778,479	2,052,874
7.35% convertible debentures	50,009 ⁽²⁾	53,585 ⁽³⁾	48,243 ⁽⁴⁾
Market capitalization	2,960,104	2,832,066	2,101,117
Senior debt	1,139,182	1,140,382	920,286
Total enterprise value	4,099,286	3,972,448	3,021,403

(1) Based on 39 trading days from January 1, 2010 to February 26, 2010 inclusive.

(2) \$35.2 million principal amount of 7.35 percent convertible debentures outstanding at a market price of \$142.24 at February 26, 2010.

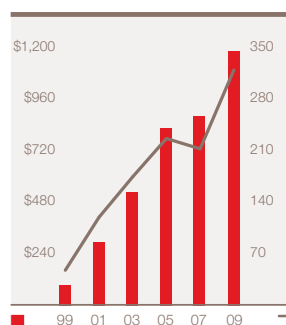
(3) \$38.3 million principal amount of 7.35 percent convertible debentures outstanding at a market price of \$140 at December 31, 2009.

(4) \$42.7 million principal amount of 7.35 percent convertible debentures outstanding at a market price of \$113.01 at December 31, 2008.

The Fund's Trust Units, along with the 7.35 percent convertible debentures, are publicly-traded on the Toronto Stock Exchange. The total market value of the Fund's outstanding securities was \$2.8 billion at December 31, 2009. Issued and outstanding Trust Units of the Fund rose to 158.6 million by the end of 2009, compared to 134.7 million in 2008. During 2009, 12.7 million Trust Units were issued under a public offering bought deal financing arrangement associated with the Cutbank Complex acquisition, 0.4 million Trust Units were issued through debenture conversions, 10.3 million Trust Units were issued under the DRIP and 0.6 million Trust Units were issued upon the exercise of Trust Unit options by certain officers and other employees of Pembina.

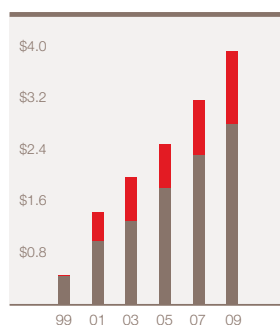
Pembina's DRIP has attracted significant Unitholder interest and raised \$142.6 million during 2009. Participation in the DRIP for the most recently completed month (January 2010) was 107 million Trust Units or \$13.9 million. Pembina expects participation in the DRIP to remain consistent at this rate through the balance of 2010.

Liquid Investment



■ Annual Value Traded (\$ millions)
— Average Daily Volume (thousands of Units)

Total Enterprise Value ⁽¹⁾



■ Debt (\$ billions)
■ Equity (\$ billions)

(1) Refer to "Non-GAAP Measures" on page 8.

Data provided by Pembina's transfer agent indicates that non-resident holdings in the Fund totaled 18 percent at December 31, 2009. This level is within the 49 percent restriction on non-resident ownership in the Fund imposed by Pembina's Declaration of Trust and is consistent with guidelines under the Income Tax Act (Canada).

RISK FACTORS

The following is a summary of the primary risk factors identified by management that could potentially have a material impact on the financial results and operations of the Fund. For a full discussion of these and other risk factors affecting the business and operation of the Fund and its operating subsidiaries, readers are referred to the Fund's Annual Information Form, an electronic copy of which is available at www.pembina.com or on the Fund's SEDAR profile at www.sedar.com.

DEBT SERVICE

At the end of 2009, Pembina Pipeline Corporation had exposure to floating interest rates on \$105.1 million in debt. A 0.25 percent change in short-term interest rates would have an annualized impact of \$0.3 million on net cash flows. Variations in interest rates and scheduled principal repayments, if required under the terms of the banking agreements as described in Note 8 to the Fund's 2009 Consolidated Financial Statements, could result in significant changes in the amounts required to be applied to debt service before payment of any amounts by the operating subsidiaries to the Fund. Certain covenants in the agreements with the lenders may also limit payments by the operating subsidiaries to the Fund. Although it is believed that the existing credit facilities are sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Pembina or that additional funds can be obtained. Holders of Senior Secured Notes, with a balance of \$73.4 million at December 31, 2009, have been provided with security over substantially all of the assets of Pembina Pipeline Corporation. If Pembina Pipeline Corporation becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, the lenders will rank senior to the Fund in respect of payments made by the operating subsidiaries on securities or unsecured promissory notes that are held by the Fund. As a result, cash distributions from the Fund to Unitholders would be adversely affected by such circumstances.

CAPITAL RESOURCES

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

RISKS RELATING TO THE ABILITY OF PEMBINA TO COMPLETE THE CORPORATE CONVERSION

The completion of the planned conversion of the Fund into a corporate form, as described on page 17, will be subject to a number of conditions precedent, some of which are outside the control of Pembina, including, without limitation, receipt of Unitholder approval, the approval of Pembina's lenders and regulatory approvals (including approval of applicable stock exchange listings and approval from the Court of Queen's Bench of Alberta). There can be no certainty, nor can Pembina provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied.

If any of the required regulatory and third-party approvals cannot be obtained on terms satisfactory to the Fund or at all, the terms of the corporate conversion may be adjusted in order to mitigate against the negative consequence of the failure to obtain any such approval, and accordingly, any anticipated benefits available to Unitholders resulting from the corporate conversion may be reduced. Alternatively, if the terms of the corporate conversion cannot be adjusted so as to mitigate against the negative consequences of the failure to obtain a required regulatory or third-party approval, the planned corporate conversion may not proceed at all. If the corporate conversion is not completed, the market price of the Fund's Trust Units may be adversely affected.

NIPISI AND MITSUE PIPELINES

The Nipisi and Mitsue Pipelines are currently under development by Pembina and Pembina cannot provide any assurances as to the successful completion of these pipelines as the project is dependent on numerous factors outside of Pembina's control, including gaining the support of various groups of stakeholders and approvals from regulatory agencies, as well as construction costs that may change depending on supply, demand and/or inflation. Under the agreements governing the construction and operation of the Nipisi and Mitsue Pipelines, Pembina is obligated to construct the pipelines and Pembina bears the risk for any cost overruns. While Pembina is not currently aware of any significant cost overruns at the date hereof, any such cost overruns in the future could reduce Pembina's expected return on the Nipisi and Mitsue Pipelines and adversely affect Pembina's results of operations which, in turn, could reduce the level of cash distributed to Unitholders. See "Risk Factors – Capital Resources" on page 34.

RESERVE REPLACEMENT AND THROUGHPUT

Pembina's conventional pipeline tariff revenues are based upon a variety of tolling arrangements, including "ship or pay" contracts, cost of service arrangements and market-based tolls. As a result, certain pipeline tariff revenues are heavily dependent upon throughput levels of crude oil, NGLs and condensate. Future throughput on Pembina's crude oil and NGL pipelines and replacement of oil and gas reserves in the service areas will be dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Without reserve additions, or expansion of the service areas, throughput on such pipelines will decline over time as reserves are depleted. As oil and gas reserves are depleted, production costs may increase relative to the value of the remaining reserves in place, causing producers to shut-in production and seek out lower cost alternatives for transportation. If the level of tariff revenue collected by Pembina decreases as a result, cash flow available to make cash distributions to Unitholders and to service obligations under the convertible debentures would be adversely affected.

Over the long term, Pembina's business will depend, in part, on the level of demand for crude oil, condensate, NGLs and natural gas in the markets served by the crude oil and NGL pipelines into which Pembina provides feedstock hydrocarbons. The global economic events in 2008 and 2009 had a substantial downward effect on the demand for and prices of such products and Pembina cannot predict the impact of future economic conditions on the energy and petrochemical industries or future demand for and prices of natural gas, crude oil, condensate and NGLs. Future prices of these products are determined by supply and demand factors, including weather and general economic conditions as well as economic, political and other conditions in other oil and natural gas regions, all of which are beyond Pembina's control.

ENVIRONMENTAL COSTS AND LIABILITIES

Pembina is subject to Canadian Federal and Alberta and British Columbia Provincial laws and regulations relating to environmental protection and operational safety. While Pembina believes the current operation of its pipeline systems is in compliance with all applicable environmental and safety regulations, there can be no assurance that substantial costs or liabilities will not be incurred. Moreover, it is possible other developments, such as increasingly strict environmental and safety laws, regulation and enforcement or claims for damages to persons or property resulting from Pembina's operations, could result in significant costs and liabilities to Pembina. If Pembina were not able to recover the resulting costs through insurance or tariffs, cash flow available to make cash distributions to Unitholders or 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 this insurance may limit its availability in respect of certain occurrences unless they are discovered within fixed timed periods. These periods can range from 72 hours to seven days. If Pembina is unaware of or is unable to locate a spill within the relevant time period insurance coverage may not be available. However, Pembina believes it has adequate leak detection systems in place to detect and monitor a significant spill.

COMPETITION

Pembina competes with other pipelines in its service areas, other transporters of crude oil and NGLs and other midstream businesses. The introduction of competing transportation alternatives into Pembina's service areas could potentially have the impact of limiting Pembina's ability to adjust tolls as it may deem necessary. Additionally, potential pricing differentials on the components of NGLs may result in these components being transported by competing gas pipelines. Pembina believes it is prepared for and determined to meet these existing and potential competitive pressures.

REGULATION

Legislation in Alberta and British Columbia exists to ensure producers have fair and reasonable opportunities to produce, transport, process and market their reserves. The Alberta Energy Resources Conservation Board and the British Columbia Utilities Commission may, upon application or 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 NGLs and 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 believe the tariffs are not just and reasonable. Applications by producers to have a pipeline operator declared a common carrier are usually accompanied with an application to have tariffs set by the regulatory authorities. The extent to which regulatory authorities in such instances can override existing transportation or processing contracts has not been fully decided. The potential for direct regulation of tolls, other than for the provincially regulated B.C. Pipelines, while considered remote, could result in toll levels that are not considered fair and reasonable by Pembina and could impair the economic operation of such regulated pipeline systems.

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 such 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, linefill would be available to offset abandonment costs.

It is not possible to definitively predict abandonment costs since they will be a function of regulatory requirements at the time and the value of Pembina's assets, including linefill, may be more or less than the abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures.

On May 26, 2009 the National Energy Board (“NEB”) issued its Reasons for Decision RH-2-2008 with respect to the Land Matters Consultation Initiative – Stream 3 which dealt with financial issues of pipeline abandonment for pipelines under the NEB’s jurisdiction. The NEB decided in principle to set an ultimate goal to have all companies under its jurisdiction begin setting aside funds for the abandonment of pipelines no later than five years from the date of the decision. The NEB recommended an action plan to achieve this ultimate goal that would require pipelines to submit to the NEB preliminary cost estimates and fund collection mechanisms for pipeline abandonment prior to the setting aside of funds.

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 Pembina’s control. 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.

STRUCTURAL INTEGRITY OF THE STORAGE FACILITY

The Midstream & Marketing business includes Pembina’s 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility. Three of the five ethylene storage caverns are due for workovers including a mechanical integrity test (“MIT”) in 2010. Successful completion of the workover and passing of the MIT would allow the caverns to operate for another 10 years, with a mandatory mid-term MIT evaluation required at the end of the fifth year (in 2015). Pembina cannot guarantee the MIT will allow the caverns to continue in service.

CREDIT RISK

Pembina is subject to credit risk arising out of both its pipeline and midstream and marketing operations. A majority of Pembina’s accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Historically, Pembina has collected its accounts receivable in full. On its Conventional Pipelines, Pembina has the right to take shipper’s oil and NGLs in kind to settle any outstanding receivable balance and to offset amounts owing to it for single shipper operations. Pembina also actively reviews credit worthiness of all new shippers on its systems and regularly reviews the credit status of current shippers.

PRICING

Terminal, storage and hub services are dependent upon the ability of Pembina to take advantage of pricing differentials for various qualitative factors in the hydrocarbon liquids streams. These differentials are based primarily on product density and sulphur content and are subject to normal market forces. Pembina actively monitors market conditions, stream content and quality to mitigate risk should there be a significant change in either price or quality factors.

SELECTED QUARTERLY INFORMATION

(\$ millions, except where noted)	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	256.4	211.9	185.5	158.0	149.4	201.3	181.5	142.7
Less: product purchases	127.2	80.8	64.4	41.9	24.0	84.2	76.2	36.5
Net revenue ⁽¹⁾	129.2	131.0	121.1	116.1	125.4	117.1	105.3	106.3
Operating expenses	39.7	39.6	35.8	44.1	42.4	40.1	33.3	35.1
Net operating income ⁽¹⁾	89.5	91.5	85.3	72.0	82.9	76.9	72.0	71.2
EBITDA ⁽¹⁾	72.2	77.8	70.2	59.8	66.8	85.0	77.1	59.0
Cash flow from operating activities	72.0	62.2	49.2	41.2	63.5	50.5	46.9	59.0
Cash flow from operating activities per Trust Unit (\$ per Unit)	0.46	0.40	0.33	0.30	0.47	0.38	0.35	0.44
Net earnings	52.9	44.7	36.2	28.3	39.0	48.1	42.1	32.6
Net earnings per Trust Unit (\$ per Unit)								
Basic	0.34	0.29	0.25	0.21	0.29	0.36	0.32	0.25
Diluted	0.33	0.29	0.24	0.21	0.29	0.35	0.31	0.24
Distributed cash ⁽¹⁾	61.4	60.2	57.5	53.2	52.3	50.7	47.9	47.8
Distributed cash per Trust Unit ⁽¹⁾								
Basic	0.3900	0.3900	0.3899	0.3900	0.3900	0.3800	0.3600	0.3600
Diluted	0.3848	0.3849	0.3847	0.3843	0.3840	0.3729	0.3528	0.3530
Trust Units outstanding (millions)								
Weighted average (basic)	157.5	154.4	147.5	136.3	134.1	133.5	133.1	132.8
Weighted average (diluted)	160.9	157.8	150.9	139.8	137.7	137.6	137.6	137.2
End of period	158.6	155.4	152.6	137.3	134.7	133.6	133.3	132.8

(1) Refer to "Non-GAAP Measures" on page 8.

CONSOLIDATED FOURTH QUARTER RESULTS

Revenue, net of product purchases, was \$129.2 million in the fourth quarter of 2009 compared to \$125.4 million in the fourth quarter of 2008. The increase was primarily the result of revenues generated by the Horizon Pipeline and the Cutbank Complex. This increase was offset by reduced revenues in the Conventional Pipelines business, a reflection of decreased throughput which was mainly due to the quarter-over-quarter reduction in crude oil and NGL production in the upstream energy industry that occurred as a result of softer commodity prices, changes in the Alberta royalty regime and limited access to credit and equity markets for some producers. Conventional Pipelines throughput during the fourth quarter of 2009 was 379,384 bbls/d, compared with 434,156 bbls/d during the same period in 2008. During the quarter, Conventional Pipelines instituted select toll increases to offset the impact of throughput declines.

Operating expense was \$39.7 million during the fourth quarter of 2009, compared to \$42.4 million in the fourth quarter of 2008. The decrease was primarily due to a reduction in discretionary maintenance costs in the Conventional Pipelines business.

Net operating income was \$89.5 million in the fourth quarter of 2009, compared to \$82.9 million in 2008. The increase was primarily the result of the same factors that positively impacted revenues, offset by the earnings effect of a rate base reduction on the Syncrude Pipeline that occurred in 2009 as a result of excess linefill sales in 2008. In December 2009, Pembina sold its Cremona pipeline system allowing for capital resources to be re-focused to core growth areas. The disposition of this non-core asset did not have a material affect on net operating income.

Net earnings for the fourth quarter of 2009 were \$52.9 million compared with \$39 million in 2008. The increase reflects the same factors that impacted revenues and net operating income; a depreciation decline of \$6.3 million; reduced expense related to the internalization of the management contract in 2008 (2009: nil; 2008: \$5 million); and an increase in the future income tax reduction of \$4.8 million. This was offset by increases in general and administrative expense of \$7 million and an increase in interest expense of \$2.6 million.

Cash flow from operating activities for the fourth quarter of 2009 was \$72 million, compared to \$63.5 million during the fourth quarter of 2008. The increase is primarily due to the increase in net operating income.

ADDITIONAL INFORMATION

Additional information relating to Pembina Pipeline Income Fund, including the Fund's 2009 Annual Information Form and financial statements, can be found at www.pembina.com and on the Fund's profile on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS AND INFORMATION

Certain statements contained in this MD&A and Annual Report constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and “forward-looking information” within the meaning of applicable Canadian securities legislation (collectively, “forward-looking statements”).

All forward-looking statements are based on Pembina’s current expectations, estimates, projections, beliefs and assumptions based on information available at the time the statement was made and in light of its experience and its perception of historical trends. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe”, “plan”, “intend”, “design”, “target”, “undertake”, “view”, “indicate”, “maintain”, “explore”, “entail”, “schedule”, “objective”, “strategy”, “likely”, “potential” and similar expressions are intended to identify forward-looking statements.

By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Fund believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A and Annual Report should not be unduly relied upon. These statements speak only as of the date of the MD&A.

In particular, this MD&A and Annual Report contain forward-looking statements, including certain financial outlook, pertaining to the following:

- the completion and timing of the conversion of the Fund’s structure to a corporate structure and the ability of the Fund to maintain its current level of cash distributions to equity holders both prior to and after completion of the proposed corporate conversion through 2013 (in the form of dividends after the corporate conversion);
- the estimated future net operating income contributions from the Nipisi and Mitsue Pipelines, once such projects are completed;
- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, including in relation to the Nipisi and Mitsue Pipeline projects, facilities or other energy infrastructure;
- pipeline system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- the Fund’s strategy and the development of new business initiatives;
- expectations regarding the Fund’s ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under governmental regulatory regimes including environmental regulations and related abandonment and reclamation obligations;
- additional throughput potential on additional connections and other initiatives on the conventional system;
- future cash flows, potential revenue and cash flow enhancements across Pembina’s businesses and the maintenance of operating margins;

- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash distributions and dividends and the tax treatment thereof;
- changes in legislation relating to the Fund and its structure, including income tax considerations and the treatment of income and mutual fund trusts;
- operating risks (including the amount of future liabilities related to environmental incidents) and related insurance coverage and inspection and integrity systems; and
- competitive conditions.

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

- the success of the Fund’s operations;
- the timely receipt of required regulatory approvals and the consent of the Fund’s lenders to the corporate conversion enabling the corporate conversion to be completed as planned;
- prevailing commodity prices and exchange rates;
- the availability of capital to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs;
- the future exploration for and production of oil, NGLs and natural gas in the capture area around Pembina’s conventional and midstream and marketing assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina’s assets;
- prevailing regulatory, tax and environmental laws and regulations; and
- the certain assumptions and other factors disclosed below under “Additional Assumptions Relating to Future Distributions/Dividends and Incremental Operating Income from the Nipisi and Mitsue Pipelines” and elsewhere in the MD&A.

The actual results of Pembina could differ materially from those anticipated in these forward-looking statements as a result of the material risk factors set forth below:

- the inability of the Fund to obtain the necessary Unitholder, Court, regulatory and other third-party approvals in respect of the corporate conversion, in a timely fashion, or at all;
- the corporate conversion may not be completed when planned or at all;
- the regulatory environment and decisions and the inability to obtain required regulatory and other stakeholder approvals (including in respect of the Nipisi and Mitsue Pipeline projects);
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key alliances and agreements;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non-performance or default by counterparties to agreements which the Fund or one or more of its affiliates has entered into in respect of its business;

- actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation;
- fluctuations in operating results;
- continued adverse general economic and market conditions and further changes thereto in Canada, North America and elsewhere, including changes in interest rates, foreign currency exchange rates and commodity prices; and
- the other factors discussed under "Risk Factors" in the MD&A and in the Fund's current Annual Information Form available under the Fund's profile at www.sedar.com.

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

Additional assumptions relating to future distributions/dividends and incremental operating income from the Nipisi and Mitsue Pipelines

The Fund's expectation to be able distribute \$1.56 per Trust Unit per year through 2013 to investors (payable as a dividend if conversion to corporate form occurs in 2010 as planned) reflects the following additional assumptions and factors:

1. Maintenance of current operating results

- Transportation volume forecast on conventional liquids pipelines consistent with the historical multi-year average production decline rates of 4 percent to 6 percent and reasonably foreseeable extension and expansion opportunities.
- Operating margin maintenance on conventional liquids pipelines through effective revenue management in consultation with customers and diligent cost mitigation activities, consistent with maintaining safe, reliable, low-cost services.
- Forecast cost inflation of 4 percent to 5 percent being substantially offset by a combination of increased volume or toll changes.
- The ongoing application and third-party performance of certain long-term agreements in each of Pembina's businesses that contribute 30 percent to 40 percent of net operating income. Specifically, contracts applied to conventional crude oil and oil sands transportation and other services, the Ethylene Storage facility, and gas gathering and processing facilities.
- Future crude oil and natural gas prices being consistent with publicly-available information related to future and forward derivative contracts.

2. The further progression and execution of the Nipisi and Mitsue Pipeline projects at expected timelines to meet in-service date of mid-2011, and the operation of that asset under currently executed contracts with projected net operating income of \$45 million annualized

- Ability to finance the remaining Nipisi and Mitsue Pipeline projects' capital expenditures utilizing existing credit facility and continuation of the DRIP at prudently forecasted market rates.

3. Deferral of cash tax payments through 2013

- Utilize current tax pools of \$1.3 billion to defer taxes payable through 2013.
- Continuance of current and the execution of proposed Canadian tax legislation.

Management believes the factors listed above will generate significant and sustainable cash flow from operating activities that will support the planned cash distribution. However, there can be no assurance this level of distribution will be achieved. Payments by Pembina Pipeline Corporation, the principal operating subsidiary to the Fund, may be delayed or reduced by restrictions imposed by lenders, disruption in services or the ability of Pembina Pipeline Corporation, under certain circumstances, to delay interest payments on its intercorporate subordinate notes for up to 12 months.

Additional assumptions relating to incremental operating income from the Nipisi and Mitsue Pipelines

Pembina estimates the Nipisi and Mitsue Pipeline projects combined will contribute \$45 million in net operating income on an annualized basis once the two pipelines are in-service. This net operating income contribution is expected to be realized based on the following key additional assumptions:

- Pembina has signed commercial agreements with three primary shippers for service on the Nipisi and Mitsue Pipelines that represent, under the terms of those contracts, approximately 90 percent of the estimated net operating income contribution for a 10-year renewable term. The annualized contribution estimate is reliant on the operation of the projects under the terms of those contracts and the performance of such contracts by the relevant third parties. The contracts have been executed with founding customers CNRL and Cenovus as well as Pembina Midstream LP (a subsidiary of Pembina Pipeline Corporation).
- Pembina expects to attract further volume for shipment on the Nipisi and Mitsue Pipelines from either the three primary shippers (two of whom have rights under the terms of the executed contracts to expand their capacity utilization) or other parties producing in the area. The annualized contribution estimate is reliant on attracting sufficient volumes to achieve full capacity utilization. As of December 31, 2009 the uncommitted capacity, without considering the rights of primary shippers to expand utilization, represents approximately 10 percent of total capacity.
- Transportation fees on additional volumes not under contract terms are expected to be greater than or equal to fees contracted with the three primary shippers.

Management of the Fund approved the financial outlook contained herein as of the date of this document. The purpose of the financial outlook contained herein is to give the reader an indication of the value to Pembina of its future business opportunities, growth projects as well as the potential effects to Unitholders of the possible conversion of Pembina to a corporate form. Readers should be aware that the information contained in the financial outlook contained herein may not be appropriate for other purposes.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of Pembina Pipeline Income Fund (the "Fund") are the responsibility of Pembina's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements and other financial information contained in this report. In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of Pembina Pipeline Corporation (the "Board") is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising their responsibilities through the Audit Committee, which consists of four non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

KPMG LLP, the independent auditors, have audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.



Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

March 4, 2010



Peter D. Robertson
Vice President Finance and Chief Financial Officer
Pembina Pipeline Corporation

AUDITORS' REPORT TO UNITHOLDERS

We have audited the consolidated balance sheets of Pembina Pipeline Income Fund as at December 31, 2009 and 2008 and the consolidated statements of earnings and deficit, comprehensive income (loss) and statements of cash flows for years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada

March 4, 2010

CONSOLIDATED BALANCE SHEETS

	2009	2008
December 31, 2009 and 2008 (\$ thousands)		
Assets		
Current assets:		
Cash and short term investments	53,927	13,638
Accounts receivable and other	83,244	57,614
Inventory	13,493	7,526
	150,664	78,778
Property, plant and equipment (Note 5)	2,051,422	1,685,394
Goodwill and other (Note 7)	379,039	354,037
	2,581,125	2,118,209
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	57,997	65,913
Distributions payable to Unitholders	20,616	17,511
Current portion of long-term debt (Note 8)	157,423	81,904
Convertible debentures (Note 9)	36,640	
	272,676	165,328
Long-term debt (Note 8)	973,522	831,797
Convertible debentures (Note 9)		40,865
Derivative financial instruments (Note 17)	5,481	13,962
Asset retirement obligations (Note 11)	104,204	84,158
Future income taxes (Note 12)	95,870	98,869
	1,451,753	1,234,979
Unitholders' equity:		
Trust Units (Note 13)	1,660,795	1,350,694
Deficit	(527,082)	(456,856)
Accumulated other comprehensive income (loss)	(4,341)	(10,608)
	1,129,372	883,230
Commitments (Note 19)		
	2,581,125	2,118,209

On behalf of the Board of Pembina Pipeline Corporation:



Lorne B. Gordon
Director
Chairman of the Board



Robert F. Taylor
Director
Chairman of the Audit Committee

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

	2009	2008
Years ended December 31, 2009 and 2008 (\$ thousands, except where noted)		
Revenues:		
Conventional Pipelines	255,022	263,409
Oil Sands & Heavy Oil	115,565	85,425
Midstream & Marketing	441,209	326,049
	811,796	674,883
Expenses:		
Operations	159,162	150,921
Product purchases	314,372	220,934
General and administrative	51,367	38,632
Depreciation and amortization (Note 5 and Note 7)	69,822	72,148
Accretion on asset retirement obligations (Note 11)	6,636	5,022
Internalization of management contract (Note 3)		13,800
Gain on sale of linefill and other	317	(42,310)
	601,676	459,147
Earnings before interest and taxes	210,120	215,736
Interest on long-term debt (Note 8)	48,869	39,430
Interest on convertible debentures (Note 9)	3,025	3,386
Earnings before taxes	158,226	172,920
Income tax expense (reduction) (Note 12)	(3,852)	11,127
Net earnings	162,078	161,793
Deficit, beginning of year	(456,856)	(419,890)
Distributed cash	(232,304)	(198,759)
Deficit, end of year	(527,082)	(456,856)
Earnings per Trust Unit – basic (dollars) (Note 15)	1.09	1.21
Earnings per Trust Unit – diluted (dollars) (Note 15)	1.07	1.19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	2009	2008
<small>Years ended December 31, 2009 and 2008 (\$ thousands)</small>		
Net earnings for the year	162,078	161,793
Other comprehensive income (loss):		
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of \$1.9 million and \$6.2 million, respectively	6,267	(18,543)
Total comprehensive income	168,345	143,250
Accumulated other comprehensive income (loss):		
Opening balance, net of tax of \$3.4 million and \$2.9 million, respectively	(10,608)	7,935
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of \$1.9 million and \$6.2 million, respectively	6,267	(18,543)
Accumulated other comprehensive income (loss)	(4,341)	(10,608)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2009	2008
Years ended December 31, 2009 and 2008 (\$ thousands)		
Cash provided by (used in):		
Operating activities:		
Net earnings	162,078	161,793
Items not involving cash:		
Depreciation and amortization	69,822	72,148
Accretion on asset retirement obligations	6,636	5,022
Future income tax expense (reduction)	(3,852)	11,127
Gain on sale of linefill		(42,896)
Employee future benefits expense (Note 10)	3,878	4,288
Trust Unit based compensation expense	464	766
Other	(705)	
Employee future benefits contributions (Note 10)	(10,000)	(3,759)
Changes in non-cash working capital (Note 16)	(3,706)	11,416
Cash flow from operating activities	224,615	219,905
Financing activities:		
Bank borrowings	157,149	141,337
Repayment of Senior Secured Notes	(6,904)	(6,422)
Issue of senior debt	342,000	
Debt repayment	(275,000)	
Issue of Trust Units for cash (Cutbank acquisition)	156,222	
Issue of Trust Units on exercise of options (Note 13)	6,569	7,536
Issue of Trust Units under Distribution Reinvestment Plan (Note 13)	142,621	14,863
Distributions to Unitholders – current year	(211,686)	(181,248)
Distributions to Unitholders – prior year	(17,511)	(15,905)
Cash flow from financing activities	293,460	(39,839)
Investing activities:		
Capital expenditures	(143,830)	(223,976)
Acquisition of Cutbank assets	(297,043)	
Proceeds on sale of linefill		54,764
Changes in non-cash working capital (Note 16)	(36,913)	(13,952)
Cash flow from investing activities	(477,786)	(183,164)
Change in cash	40,289	(3,098)
Cash, beginning of year	13,638	16,736
Cash, end of year	53,927	13,638
Other cash disclosures:		
Interest on long-term debt paid	(43,587)	(44,481)
Interest on convertible debentures paid	(2,932)	(3,273)
Interest capitalized	(1,414)	(8,039)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (Tabular amounts stated in thousands of dollars, except per Trust Unit amounts. All amounts stated are in Canadian dollars.)

1. STRUCTURE OF THE FUND

Pembina Pipeline Income Fund (the “Fund”) is an open-ended, single purpose trust formed under the laws of the Province of Alberta pursuant to a declaration of trust. The Fund commenced operations in October 1997 when it acquired all of the shares and unsecured promissory notes of Pembina Pipeline Corporation (“Pembina”) which owns or has interests in pipelines and related facilities to transport crude oil, condensate and natural gas liquids, gather and process natural gas; and provide midstream services in Alberta and British Columbia.

The Fund makes monthly distributions of its distributable cash to Unitholders of record on the 25th day of each month except December which is the last day of the month. The amount of the distributions per Trust Unit are equal to the pro-rata share of interest income (and in certain circumstances repayment of principal) on the Pembina notes and dividends (and in certain circumstances repayment of capital) on the Pembina shares less expenses of the Fund and cash redemptions of Trust Units.

Pursuant to the Fund’s distribution policy, it will pay interest, principal, dividends and capital, subject to retaining an appropriate distribution reserve, satisfying its financing covenants, making loan repayments, and funding future removal and site restoration expenditures. Pembina’s routine operations are expected to be funded from available cash while ongoing development, expansions and acquisitions of pipeline and other assets and related facilities are expected to be funded primarily through debt or issuance of Trust Units.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of GAAP for non rate-regulated entities. Certain of the prior year’s comparative figures have been reclassified to conform to the current year’s presentation.

Regulation

The pipeline systems in Alberta and British Columbia (BC) are subject to the respective provincial utilities board authority over matters such as construction, rates and rate setting agreements with customers. Pipelines crossing provincial borders are also subject to the authority of the National Energy Board. The Alberta pipelines generally operate under market tolling arrangements and the utilities board will not review rates unless it receives a complaint. Rates on the BC pipelines require provincial utility board approval and certain period costs are deferred and recovered in tolls over a five year period as directed by the regulator.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary companies and partnerships and its proportionate share of the accounts of joint ventures and partnerships. The Fund does not utilize off balance sheet arrangements with unconsolidated entities.

Cash and cash equivalents

Short-term investments with original maturities of 90 days or less are considered to be cash equivalents and are recorded at cost which approximates market value.

Inventories

Inventories, primarily consisting of crude oil inventory for storage, are measured at lower of cost and net realizable value. Cost is determined by the current month weighted average purchase price or the First In, First Out (FIFO) valuation method.

Property, plant and equipment

Property, plant and equipment consist primarily of conventional pipelines, linefill and gathering systems, oil sands and heavy oil pipelines, natural gas processing plants and marketing storage facilities, which are all carried at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of all projects with some major projects spanning over several years.

Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 33 years (an average of 27.5 years) or declining balance method at rates ranging from 3 percent to 33 percent per annum (an average rate of 5.3 percent per annum). Storage assets and facilities are depreciated using the straight line method over 40 years. These rates are established to depreciate remaining net book value over the economic lives or contractual duration of the related assets.

Intangibles

Goodwill

Goodwill represents the excess, if any, of the consideration paid over the fair value of identifiable assets and liabilities acquired in a business combination and often arises as a result of the recognition of a future income tax liability related to the difference between the fair value and the tax base of acquired assets. Goodwill is not amortized but, at a minimum, is subject to an annual impairment test and an impairment loss is recognized when the carrying amount of goodwill exceeds its fair value. The measurement methodology used to evaluate whether there is a permanent impairment in the value of goodwill is based on discounted cash flows.

Other Intangibles

Other intangible assets acquired individually or as part of a group of assets are recognized and measured at cost. Intangibles are amortized using the straight line method over 20 to 33 years.

Impairment of long-lived assets

Management reviews property, plant and equipment and intangibles to determine if circumstances indicate impairment in the carrying value. If impairment has occurred, an impairment charge to earnings is recognized for the amount the carrying value of the asset exceeds its estimated fair value based on discounted future cash flows.

Employee pension plans

A subsidiary of the Fund maintains a defined contribution plan, and a non-contributory defined benefit pension plan covering its employees along with an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. For the defined contribution plan, the contributions made during the period are recognized as costs in exchange for employee service rendered during the same period. The cost of pension benefits earned by employees in the defined benefit plans are charged to earnings as services are rendered using the projected benefit method pro-rated on service. The cost of the defined benefit plans reflects management's estimate of the rate of return on pension plan assets, salary escalations, mortality and other factors affecting the payments of future benefits. Adjustments arising out of plan amendments, changes in assumptions and experience gains and losses are normally amortized, using the corridor method, over the expected remaining average service life of the employee group. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10 percent of the greater of the accrued benefit obligation and the value of the plan assets. The market value of assets is used for all calculations.

Asset retirement obligations

The fair value of the estimated asset retirement obligations are recognized in the period in which they are incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The fair value is recorded as a long-term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual costs incurred upon settlement and the recorded liability is recognized as a gain or loss in earnings.

Income taxes

Income taxes, based on current legislation, are recorded on the asset and liability method of accounting as the subsidiaries are projected to be taxable in the future. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders. Accordingly, no provision for income taxes on the earnings of the Fund has been made.

Future income tax liabilities of subsidiaries are recognized on acquisitions and reflect the difference between the net book value and tax value of capital assets at future statutory income tax rates and other temporary differences. On recognition of future taxes on capital assets, an equivalent amount is allocated to property, plant and equipment or, if the consideration paid approximates the estimated depreciated replacement cost, then the allocation is to goodwill. The future income tax expense (reduction) represents the change in these amounts and other timing differences during the year.

Bill C-52 relating to trust tax has no additional impact on the future income tax liability. The Fund has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability and, as the tax basis of the Fund's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature.

Revenue recognition

Pipeline transportation revenues are recorded when the services have been provided. For rate or contractually regulated pipeline operations, revenue is recognized in a manner that is consistent with the underlying rate design as mandated by agreement or regulatory authority.

Certain pipelines have been designated single-shipper lines where producers must either sell their product at the inlet point at which point revenue is recognized or are considered buy/sell transactions where the producer sells their product at the inlet point and repurchases it at the delivery point for the inlet price paid plus an agreed-upon differential on a pre-arranged basis. The buy/sell transactions are recorded when the services have been provided and recognized on a net basis in the statement of earnings. Product purchases for terminalling, storage and hub services are recognized on a gross basis in the statement of earnings. Product sales are recognized when the product is delivered to a customer.

Storage revenue is recognized when the service is provided consistent with the rate contracted with the customer.

Unit based compensation

The Fund uses the fair value method to account for the compensation cost of options granted pursuant to the unit option plan described in Note 14. Under the fair value method, the options are measured at fair value at the grant date and the cost is recognized in earnings over the vesting period. Consideration paid on exercise of the options is credited to Unitholders' equity.

The Fund has a restricted Trust Unit plan as described in Note 14. As participants in this plan are entitled to a cash payment on a fixed vesting date, the Fund is using the intrinsic value method to account for the compensation cost of this plan. Changes in intrinsic value result in a change in the measurement of compensation cost. As awards vest at the end of the vesting period, compensation cost is recognized as incurred.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI") such as revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income but not in net earnings. The Fund's consolidated financial statements include a Consolidated Statement of Comprehensive Income (Loss). Within the Consolidated Statement of Comprehensive Income (Loss), the Fund has included an accumulated comprehensive income continuity which shows the cumulative changes in other comprehensive income and the period end balance is presented as a separate category in Unitholders' equity. The other comprehensive income is comprised of the unrealized gains or losses on derivative financial instruments designated as cash flow hedges.

The rules require the recording of hedging derivatives at fair value. The unrealized gains and losses in the fair value of cash flow hedging instruments are recorded in other comprehensive income, net of tax, until recognized in earnings. The fair value of the cash flow hedges are recorded on the Balance Sheet as assets or liabilities with changes in the fair value reflected in accumulated comprehensive income in Unitholders' equity with no impact on net earnings for the period. Gains and losses on derivatives that are not designated as cash flow hedges and any gains and losses after the termination of hedging relationships are charged to earnings as they arise.

Risk management

The Fund uses derivative financial instruments to manage exposure to interest rates, power costs, crude oil or natural gas liquids and foreign exchange fluctuations. The Fund does not trade financial instruments or use them for speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions for all financial instruments designated as cash flow hedges. The Fund also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fund has interest rate swaps and a power swap hedge that are both designated as cash flow hedges. These cash flow hedges are used to manage the potential increase or decrease in interest expense on floating rate debt instruments and the price of non-transmission power charges. The fair value of these cash flow hedges are recorded on the Balance Sheet with changes in the fair value reflected in accumulated comprehensive income.

All derivatives are recorded on the balance sheet at fair value, with the exception of non-financial derivatives that were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Fund's expected purchase, sale or usage requirements.

Unit calculations

The Fund applies the treasury stock method to determine the dilutive effect of convertible trust unit rights and options ("convertible instruments"). Under the treasury stock method, outstanding and exercisable convertible instruments that will have a dilutive effect are included in fully diluted calculations.

The dilutive effect of convertible instruments is determined whereby outstanding convertible instruments at the end of the period are assumed to have been converted at the beginning of the period or at the time issued if issued during the year. Amounts charged to income or loss relating to the outstanding convertible instruments are added back to net income for the diluted calculations. The units issued upon conversion are included in the denominator of per unit basic calculations for the date of issue.

Accounting policy changes

On January 1, 2009, the Fund adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook sections on a prospective basis:

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets ("Section 3064"), which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450 Research and Development Costs. The purpose of this section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets.

Section 3064 increases harmonization of Canadian standards with International Financial Accounting Standards (IFRS) and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of the new standard had no impact on Pembina's financial statements.

Future Accounting Changes

International Financial Reporting Standards

The CICA Accounting Standards Board (AcSB) confirmed in February 2008 that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective January 1, 2011. The Fund has developed a conversion plan to complete the transition by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Fund's Consolidated Financial Statements is not reasonably determinable at this time.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB issued CICA Handbook Section 1582 "Business Combinations" which will replace Section 1581 "Business Combinations" establishing standards for accounting for a business combination that will more closely resemble those under IFRS. Entities adopting Section 1582 will also be required to adopt CICA Handbook Sections 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests" which will replace Section 1600 "Consolidated Financial Statements". These standards will require a change in the measurement of non-controlling interest and will require the change to be presented as part of Unitholders' equity on the balance sheet. In addition, the income statement of the controlling parent will include 100 percent of the subsidiary's results and present the allocation between the controlling interest and non-controlling interest. These standards will be effective for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with early application permitted. The changes resulting from adopting Section 1582 will be applied prospectively and the changes from adopting Sections 1601 and 1602 will be applied retrospectively. Management has not fully determined the impact of adopting these standards.

3. INTERNALIZATION OF MANAGEMENT CONTRACT

Effective June 30, 2006, the Fund acquired all of the outstanding common shares of Pembina Management Inc., the manager of the Fund. Total consideration for the transaction consisted of an initial cash payment of \$6 million and a contingent deferred payment that was made in 2009 linked to growth in distributable cash per Trust Unit of the Fund in the period from January 1, 2006 to December 31, 2008.

The cumulative distributable cash was \$4.73 per Trust Unit and resulted in a base purchase price of \$13.5 million, or 850,662 notional Trust Units based on the weighted-average trading price of the Trust Units for the 20 trading days prior to June 30, 2006 of \$15.87 (the "closing price"). The purchase price was also adjusted by the distributions paid on the notional Trust Units and the change in the value of the Fund's Trust Units from the closing price, after giving consideration to the estimated impact of the specified investment flow-through entities ("SIFT") tax and market conditions, resulting in deferred payment of \$18.5 million that was paid in March 2009.

4. BUSINESS SEGMENTS

The Fund determines its reportable segments based on the nature of operations and includes three operating segments: Conventional Pipelines, Oil Sands & Heavy Oil and Midstream & Marketing.

Conventional Pipelines consist of the tariff based operations of pipelines and related facilities to deliver crude oil, condensate and natural gas liquids in Alberta and British Columbia.

Oil Sands & Heavy Oil consists of the Syncrude Pipeline, the Cheecham Lateral and the Horizon Pipeline. These pipelines and related facilities deliver synthetic crude oil produced from oil sands under long-term cost-of-service arrangements.

Midstream & Marketing consists of the Fund's direct and indirect interest in a storage operation, its direct interests in terminalling, storage hub services under a mixture of short, medium and long-term contractual arrangements and natural gas gathering and processing facilities – the Cutbank Complex (see "Note 6").

The financial results of the business segments are as follows:

(\$ thousands)	2009				
	Conventional Pipelines ⁽¹⁾	Oil Sands & Heavy Oil	Midstream & Marketing	Corporate	Total
Revenue:					
Pipeline transportation	255,022	115,565			370,587
Terminalling, storage and hub services			408,232		408,232
Gas Services			32,977		32,977
Revenue before expenses	255,022	115,565	441,209		811,796
Expenses:					
Operations	104,556	34,006	20,600		159,162
Product purchases			314,372		314,372
General and administrative ⁽²⁾		2,434		48,933	51,367
Depreciation and amortization	28,577	23,958	14,966	2,321	69,822
Accretion on asset retirement obligations	5,690	664	282		6,636
Other				317	317
	138,823	61,062	350,220	51,571	601,676
Earnings (loss) before interest and taxes	116,199	54,503	90,989	(51,571)	210,120
Property, plant and equipment ⁽³⁾	756,202	803,706	483,095	8,419	2,051,422
Goodwill and other	194,370	28,300	138,572	17,797	379,039

(1) 12.8 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) General and administrative expenses for Midstream & Marketing are included in operating expenses.

(3) Included in property, plant and equipment are Assets Under Construction of \$119.6 million, which includes \$75.6 million for Nipisi and Mitsue Pipelines.

2008

(\$ thousands)	Conventional Pipelines ⁽¹⁾	Oil Sands & Heavy Oil	Midstream & Marketing	Corporate	Total
Revenue:					
Pipeline transportation	263,409	85,425			348,834
Terminalling, storage and hub services			326,049		326,049
Revenue before expenses	263,409	85,425	326,049		674,883
Expenses:					
Operations	113,195	28,746	8,980		150,921
Product purchases			220,934		220,934
General and administrative ⁽²⁾		1,347		37,285	38,632
Depreciation and amortization	47,293	13,545	10,368	942	72,148
Accretion on asset retirement obligations	4,376	646			5,022
Internalization of management contract				13,800	13,800
Other ⁽³⁾		(42,897)		587	(42,310)
	164,864	1,387	240,282	52,614	459,147
Earnings (loss) before interest and taxes	98,545	84,038	85,767	(52,614)	215,736
Property, plant and equipment	740,589	762,744	175,388	6,673	1,685,394
Goodwill and other	194,370	28,300	119,692	11,675	354,037

(1) 14.8 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) General and administrative expenses for Midstream & Marketing are included in operating expenses.

(3) Included in other for Oil Sands & Heavy Oil segment is a gain on sale of Syncrude linefill of \$42.9 million. This represents the purging and sale of 385,000 barrels of excess linefill for total proceeds of \$54.8 million.

A summary of the Fund's interest in the Fort Saskatchewan Ethylene Storage Partnership as at December 31, 2009 is as follows:

(\$ thousands)	2009	2008
Current assets	1,794	1,813
Working capital	1,794	1,813
Property, plant and equipment	84,711	86,586
Goodwill and other intangibles	115,942	119,692
Future income taxes	(46,488)	(48,206)
Investment in partnership	155,959	159,885
Revenues	21,957	22,334
Expenses	4,352	4,609
Cash flow from operating activities	17,605	17,725
Net earnings	11,680	8,682

5. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment consist primarily of conventional pipelines, linefill and gathering systems, oil sands and heavy oil pipelines, natural gas processing plants and marketing storage facilities, which are all carried at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of all projects with some major projects spanning over several years.

Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 33 years (an average of 27.5 years) or declining balance method at rates ranging from 3 percent to 33 percent per annum (an average rate of 5.3 percent per annum). Storage assets and facilities are depreciated using the straight line method over 40 years. These rates are established to depreciate remaining net book value over the economic lives or contractual duration of the related assets.

	2009 Cost ⁽¹⁾	2008 Cost	2009 Accumulated depreciation	2008 Accumulated depreciation	2009 Net	2008 Net
(\$ thousands)						
Conventional Pipelines	1,355,108	1,318,851	(598,906)	(578,262)	756,202	740,589
Oil Sands & Heavy Oil	909,028	844,274	(105,322)	(81,530)	803,706	762,744
Midstream & Marketing	529,109	210,940	(46,014)	(35,552)	483,095	175,388
Corporate	16,215	12,148	(7,796)	(5,475)	8,419	6,673
	2,809,460	2,386,213	(758,038)	(700,819)	2,051,422	1,685,394

(1) Included in the cost are Assets Under Construction of \$119.6 million.

Depreciation and amortization expense in 2009 was \$69.8 million (2008: \$72.1 million).

6. ACQUISITION

On June 2, 2009, Pembina Gas Services Limited Partnership, a subsidiary of Pembina, completed the acquisition of the Cutbank Complex. The Cutbank Complex is a fully interconnected sweet natural gas gathering and processing complex comprised of three gas plants, nine compressor stations and approximately 300 kilometres of gathering systems. Two of the gas plants (Cutbank and Musreau) are 100 percent and 86 percent owned, respectively, and operated by Pembina and the Kakwa Gas Plant, in which Pembina acquired a 50 percent interest, is operated by a third party. The acquisition has been accounted for by the purchase method as a business combination.

(\$ thousands)

Net assets acquired:	
Property, plant and equipment	279,674
Other intangibles ⁽¹⁾	23,038
Asset retirement obligation	(5,669)
	297,043
Consideration:	
Cash	296,456
Transaction costs	587
	297,043

(1) Other intangibles resulted from the acquisition of contracts with several producers.

7. GOODWILL AND OTHER

	Cost	Accumulated amortization	2009 Net	2008 Net
(\$ thousands)				
Goodwill	287,670		287,670	287,670
Other intangibles	98,038	(24,466)	73,572	54,692
Pension asset (Note 10)	17,797		17,797	11,675
	403,505	(24,466)	379,039	354,037

8. LONG-TERM DEBT

	Available facilities at December 31, 2009	2009	2008
(\$ thousands)			
Bank loans:			
Operating facility	50,000		
Revolving credit facility	500,000	200,000	390,000
Non-revolving credit facility	150,000	150,000	
Non-revolving term facility	75,000	75,000	
Senior unsecured notes – Series A	175,000	175,000	175,000
Senior unsecured notes – Series B			75,000
Senior unsecured notes – Series C	200,000	200,000	200,000
Senior unsecured notes – Series D	267,000	267,000	
Senior secured notes	73,382	73,382	80,286
	1,490,382	1,140,382	920,286
Less current portion		(157,423)	(81,904)
Less deferred charges		(9,437)	(6,585)
Balance December 31		973,522	831,797

The bank facilities are syndicated facilities established with Canadian chartered banks. On July 24, 2007, the revolving credit facilities of Pembina Pipeline Corporation, the principal operating subsidiary of the Fund, were renewed for a period of five years to July 24, 2012. The \$30 million operating facility matured July 24, 2009, at which time it was renewed for a \$50 million operating facility for 365 days. There are no repayments due over the term. Borrowings bear interest at either prime lending rates or based on Bankers' Acceptances rates plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from zero percent to 2.75 percent.

On June 2, 2009, a non-revolving credit facility for \$150 million was established for an 18 month period to December 1, 2010 and bears interest at either prime lending rates plus 1.75 percent or Bankers' Acceptances rates plus 2.75 percent.

Series A senior unsecured notes bear interest at 5.99 percent payable semi-annually and are due June 15, 2014. Series B senior unsecured notes matured on June 22, 2009. In May 2009, a \$75 million senior unsecured non-revolving term facility was drawn upon at an interest rate of 6.16 percent and is due May 20, 2014. Series C senior unsecured notes bear interest at 5.58 percent payable semi-annually and are due September 30, 2021.

On November 18, 2009, Series D senior unsecured notes were issued and bear interest at 5.91 percent payable semi-annually and are due November 18, 2019. These notes are subject to the maintenance of certain financial ratios.

The \$73.4 million Senior Secured Notes are due 2017 and bear interest at 7.38 percent per annum, compounded semi-annually and payable monthly in arrears. Blended monthly payments of principal and interest of approximately \$1 million are payable on the first day of each month through August 2017. These notes are subject to the maintenance of certain financial ratios and are secured by a floating charge debenture on the assets of the Fund and its subsidiaries, guarantees of the subsidiaries and a pledge of the subsidiaries' shares.

The Fund has \$200 million in interest rate swaps outstanding as at December 31, 2009 on variable rate bank borrowings, with an average rate of 4.4 percent and an average remaining term to expiration of 6.16 years. The Fund receives a floating rate and pays a fixed rate. The unrealized market to market loss on the interest rate swap was \$6.1 million as at December 31, 2009.

Deferred charges of \$9.4 million has been classified with long-term debt (2008: \$6.6 million). Amortization related to these deferred charges of \$3.3 million (2008: \$1.1 million) is included in interest on long-term debt expense on the income statement.

Scheduled payments of principal on the notes in the next five years are as follows (the renewed credit facilities have no repayments due over the term):

Year	Notes
(\$ thousands)	
2010	157,423
2011	7,981
2012	208,581
2013	9,226
2014	259,920
	643,131

9. CONVERTIBLE DEBENTURES

	7.35%
(\$ thousands)	
Balance, January 1, 2008	47,702
Conversions	(6,837)
Balance, December 31, 2008	40,865
Conversions	(4,225)
Balance, December 31, 2009	36,640

The 7.35 percent convertible unsecured subordinated debentures mature on December 31, 2010, with interest payable semi-annually in arrears on June 30 and December 31. The debentures may be converted at the option of the holder at a conversion price of \$12.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund. The Fund may, at its option after June 30, 2006, elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

The Fund did not allocate a portion of the convertible debentures to equity as the calculation of the equity component was not significant when such an allocation was based on an approximate interest rate that would have been applicable to the issuance of similar debt without the conversion features at the time the debentures were issued.

10. EMPLOYEE FUTURE BENEFITS

A subsidiary of the Fund maintains a defined contribution plan and non-contributory defined benefit pension plans covering its employees: a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. Benefits under the defined benefit plans are based on the length of service and the final average best three years of earnings of the employee. Benefits paid out of the plans are not indexed.

The subsidiary funds these plans in accordance with government regulations by contributing to trust funds administered by an independent trustee.

The Fund measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation is as at December 31, 2008.

Information about the defined benefit plan is as follows:

	2009	2008
(\$ thousands)		
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	61,359	76,503
Current service cost	2,881	4,069
Interest cost	4,703	4,406
Benefits paid	(3,456)	(3,016)
Actuarial loss (gain)	15,463	(20,603)
Accrued benefit obligation, end of year	80,950	61,359
Plan assets		
Fair value of plan assets, beginning of year	60,682	72,725
Actual return on plan assets (loss)	11,593	(12,786)
Employer contributions	10,000	3,759
Benefits paid	(3,456)	(3,016)
Fair value of plan assets, end of year	78,819	60,682
Funded status		
Deficit	(2,131)	(677)
Unamortized net actuarial loss	21,640	14,350
Unamortized transitional asset	(1,712)	(1,998)
Accrued benefit asset	17,797	11,675

Plan assets consist of:

Asset category	2009 Percentage of plan assets	2008 Percentage of plan assets
Equity securities ⁽¹⁾	66%	59%
Debt securities	33%	38%
Cash	1%	3%
Total	100%	100%

(1) Less than 0.1 percent of the plan assets are invested in securities of the Fund.

The net benefit plan expense is as follows:

	2009	2008
(\$ thousands)		
Current service cost	2,881	4,069
Interest cost	4,703	4,406
Actual return on plan assets (gain) loss	(11,593)	12,786
Actuarial loss (gain) on accrued benefit obligation	15,463	(20,603)
Cost arising in the period	11,454	658
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	7,417	(17,702)
Actuarial (gain) loss	(14,707)	21,617
Transitional asset	(286)	(285)
Net benefit plan expense	3,878	4,288

Assumptions for the expense and accrued benefit obligation are as follows:

	2009	2008
Assumptions for expense		
Discount rate	7.5%	5.6%
Expected long-term rate of return on plan assets	6.5%	6.75%
Rate of compensation increase	6.0%	6.25%
Assumptions for accrued benefit obligation		
Discount rate	6.6%	7.5%
Rate of compensation increase	5.0%	6.0%

11. ASSET RETIREMENT OBLIGATIONS

The Fund has estimated the net present value of its total asset retirement obligations based on a total future liability (adjusted for 4 percent inflation per annum based on the Alberta CPI inflation average) of \$800 million (2008: \$525 million). The obligations are expected to be paid over the next 50 years with substantially all being paid after 30 years. The Fund used credit adjusted risk free rates ranging from 7.98 percent to 8.28 percent to calculate the present value of the asset retirement obligations.

The property, plant and equipment of the Fund consist primarily of underground pipelines, above ground equipment facilities and storage assets. No amount has been recorded relating to the removal of the underground pipelines or the storage assets as the potential obligations relating to these assets cannot be reasonably estimated due to the indeterminate timing or scope of the asset retirement. As the timing and scope of retirement become determinable for these assets, the fair value of the liability and the cost of retirement will be recorded.

	2009	2008
(\$ thousands)		
Obligations, beginning of year	84,158	62,236
Change in obligation estimate	13,410	16,900
Accretion expense	6,636	5,022
Obligations, end of year	104,204	84,158

12. INCOME TAXES

The components of the subsidiaries' future income tax liability are as follows:

	2009	2008
(\$ thousands)		
Difference between book values and tax values of:		
Property, plant and equipment	125,692	100,200
Intangibles	9,942	10,565
Taxable limited partnership income deferral	54,058	71,896
Benefit of loss carry-forwards	(73,852)	(62,922)
Asset retirement obligation	(26,051)	(21,040)
Financial instruments designated as hedges	(1,440)	(3,355)
Other	7,521	3,525
	95,870	98,869

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Fund's earnings before taxes. This difference results from the following items:

	2009	2008
(\$ thousands, except where noted)		
Earnings before taxes	158,226	172,920
Combined statutory rate	29%	29.50%
Income taxes at the statutory rate	45,886	51,011
Increase (decrease) resulting from:		
Interest deductions of subsidiaries arising from intercorporate debt	(52,661)	(48,787)
Tax rate changes on future income tax balances	(5,434)	(591)
Interest on convertible debentures	877	999
Non-deductible items	(237)	(1,857)
Other	7,717	10,352
Income tax expense (reduction)	(3,852)	11,127

On October 31, 2006, the Federal Government announced a proposed trust taxation of 31.5 percent, subsequently reduced to 29 percent, of distributions which may be effective January 31, 2011, that may impact the Fund's current and future income taxes. The enactment of Bill C-52 relating to trust tax has no additional impact on the future income tax liability. The Fund has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability of \$105.7 million and as the tax basis of the Fund's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature.

13. TRUST UNITS

The Fund is authorized to create and issue an unlimited number of Trust Units.

	Trust Units	Amount (\$ thousands)
Balance, January 1, 2008	132,541,536	1,320,692
Exercise of Trust Unit options	517,310	7,536
Debenture conversions	571,360	6,837
Distribution Reinvestment Plan	1,072,861	14,863
Contributed Surplus		766
Balance, December 31, 2008	134,703,067	1,350,694
Issue of Trust Units (to acquire Cutbank Complex)	12,694,000	156,222
Exercise of Trust Unit options	578,730	6,569
Debenture conversions	353,120	4,225
Distribution Reinvestment Plan	10,259,782	142,621
Contributed Surplus (Note 14)		464
Balance, December 31, 2009	158,588,699	1,660,795

Trust Units are redeemable at any time at the option of the holder. The redemption price is equal to the lesser of 95 percent of the average market price of the Trust Units during a 10 day period commencing immediately after the redemption date and the closing market price on the redemption date. The total amount payable by the Fund in respect of redemptions in any calendar month shall not exceed \$250,000. To the extent that a Unitholder is not entitled to receive cash upon the redemption of the Trust Units, the redemption price shall be satisfied by way of the Fund distributing a pro-rata number of Pembina notes, shares or securities of other businesses, if any, acquired from time to time.

A Unitholders' rights plan was approved by the Unitholders on May 1, 2008 for a further three year period. If a bid to acquire control of the Fund is made, the plan is designed to give the Board of Directors time to consider alternatives to allow Unitholders to receive full and fair value for their Trust Units. In the event that a bid, other than a permitted bid, is made, Unitholders become entitled to exercise rights to acquire Trust Units of the Fund at 50 percent of market value.

The Fund has adopted a DRIP. This plan allows participants an opportunity, under the distribution reinvestment component of the plan, to reinvest distributions into Trust Units at a five percent discount to a weighted average market price or, alternatively, under the premium distribution component of the plan, to realize two percent more cash on their distributions. Eligible Unitholders can also make optional Trust Unit purchases at the weighted average market price.

14. UNIT-BASED COMPENSATION

The Fund has an option plan under which directors, officers and employees are eligible to receive options. Although eligible to receive options, directors and officers have not been granted any since November 28, 2002. The number of Trust Units reserved for issuance at December 31, 2009 is 5,796,685 representing 3,218,592 options issued and exercisable, 658,825 options issued and exercisable on or after their vesting date of December 31, 2009 and 1,919,268 options are reserved for future grants.

In 2009, the directors approved new grants totaling 687,500 options which were granted to certain employees (excluding officers) at exercise prices of \$14.84, \$13.89, \$14.91 and \$15.35, one-third of which vested immediately, one-third of which will vest on the first anniversary date of the grant, and one-third of which will vest on the second anniversary date of the grant. These options expire seven calendar years after their grant date.

The following tables summarize information about the outstanding options at December 31, 2009 and 2008:

	Number of options	Weighted average exercise price
Outstanding and exercisable, January 1, 2008	3,956,009	\$14.12
Granted	601,500	\$17.10
Exercised	(517,310)	\$14.16
Expired	(167,089)	\$15.94
Outstanding and exercisable, December 31, 2008	3,873,110	\$14.76
Granted	687,500	\$14.63
Exercised	(578,730)	\$12.76
Expired	(104,463)	\$15.46
Outstanding and exercisable, December 31, 2009	3,877,417	\$15.02

Exercise Price (dollars)	Number outstanding at December 31, 2009	Options exercisable	Weighted average remaining life (years)
\$13.85	254,579	254,576	2.32
\$14.74	2,285,339	2,285,339	3.92
\$15.57	191,834	191,834	4.50
\$16.73	36,667	36,667	4.75
\$17.08	44,500	14,667	5.01
\$16.46	114,500	64,667	5.28
\$18.06	157,500	101,672	5.50
\$16.78	158,334	93,341	5.75
\$14.84	139,667	34,334	6.01
\$13.89	207,833	54,833	6.25
\$14.91	176,667	55,000	6.50
\$15.35	110,000	31,663	6.76
\$13.85 to \$18.06	3,877,417	3,218,592	4.44

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair values of the options granted during the year and the weighted average assumptions used in their determination are as follows:

	2009	2008
Annual distribution yield	10.7%	8.9%
Risk free interest rate	2.06%	3.25%
Expected life	5 years	5 years
Expected volatility	44%	24%
Weighted average fair value per option	\$1.57	\$0.95

The Fund expensed \$0.5 million net of cancellations for the year ended December 31, 2009 which was recorded in contributed surplus (2008: \$0.8 million).

A long-term incentive plan was established in 2005. Under this unit-based compensation plan, awards of restricted units are made to qualifying employees and directors. The plan results in participants receiving cash compensation based on the value of underlying notional Trust Units granted under the plan. The units vest in equal annual amounts over a three year period and the cash payments are based on a trading value of the Trust Units plus notional accrued distributions and performance of the Fund. The details of the various grants are included in the following table:

	Total Grant	Outstanding at December 31, 2009	Vested at December, 31, 2009
(\$ thousands)			
2005	55,844		
2006	145,771		
2007	234,749		189,335
2008	227,626	126,090	126,097
2009	292,672	297,603	148,022

Based on the 90-day weighted average trading price of the Trust Units prior to December 31, 2009, the estimated intrinsic value of the restricted Trust Units vested to December 31, 2009 totaled \$7.4 million (2008: \$6.0 million). The Fund has recorded compensation expense of \$7.7 million in 2009 (2008: \$6.4 million) relating to vested awards.

15. EARNINGS PER TRUST UNIT

The following table summarizes the computation of net earnings per Trust Unit:

	2009	2008
(\$ thousands)		
Net earnings		
Numerator for basic earnings per Trust Unit	162,078	161,793
Numerator for diluted earnings per Trust Unit	164,211	164,180
Denominator:		
Weighted average denominator for basic Trust Units	149,001	133,380
Dilutive instruments:		
Debtentures	3,338	3,838
Employee options	1,786	430
Denominator for diluted earnings per Trust Unit	154,125	137,648
Basic earnings per Trust Unit (in dollars)	1.09	1.21
Diluted earnings per Trust Unit (in dollars)	1.07	1.19

16. CHANGE IN NON-CASH WORKING CAPITAL

	2009	2008
(\$ thousands)		
Accounts receivable, inventory and other	(32,702)	(8,963)
Accounts payable and accrued liabilities	(7,917)	6,427
	(40,619)	(2,536)
Operations	(3,706)	11,416
Investments	(36,913)	(13,952)

17. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk

The Fund has exposure to credit risk, liquidity risk and market risk. The Fund's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Fund's policies on an ongoing basis to ensure that these risks are appropriately managed. The Fund's Audit Committee oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of this risk framework in relation to the risks faced by the Fund. The Fund's Risk Management Function assists in managing these risks. The Fund's primary risk management objective is to protect earnings and cash flow and ultimately Unitholder distributions.

Credit risk

Credit risk is the risk of financial loss to the Fund if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Fund's cash and cash equivalents and receivables and from counterparties on its power cost swaps. The carrying amount of the financial assets represents the maximum credit exposure to the Fund.

The Fund manages credit risk for its cash and cash equivalents by maintaining bank accounts with Schedule 1 banks. The Fund has minimal credit risk related to its receivables as a majority of these amounts are with large established customers in the oil and gas industry and are subject to the terms of the Fund's shipping rules and regulations or pursuant to contracts. The rules and regulations permit The Fund to receive and hold credit assurance against a counterparty to cover current and aged receivables when warranted. Balances are payable on the 25th day of the following month. This date coincides with the date on which oil and gas companies receive payment from industry partners and customers. Historically, Pembina has collected its receivables in full with an excess of approximately 80 percent collected on the due date. Pembina also maintains lien rights on the oil and NGL's that are in the Fund's custody during the transportation of such products on the pipeline as well as the right to offset for single shipper operations. Therefore, the risk of non-collection is considered to be low and no allowance for doubtful accounts has been made.

Additionally, credit risk is mitigated through established credit management techniques, including conducting comprehensive financial and sector assessments for all new shippers on its systems and regular reviews of the credit status of current shippers to establish and monitor the counterparty's creditworthiness, to set exposure limits and to obtain financial assurances such as letters of credit and guarantees when warranted. The Fund's review includes external ratings for customers, where available, and in other cases, detailed financial assessments and reviews which generates a credit rating based on financial ratios. Credit limits are established for each customer representing the maximum open amount and an associated limit approval authority matrix has been approved by the Risk Management Committee. These limits are reviewed on an ongoing basis.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they come due. The Fund's approach to managing liquidity risk is to ensure funds and credit facilities are available to meet its short term obligations. Management monitors daily cash positions and performs cash forecasts weekly to determine cash requirements. On a monthly basis, Management typically forecasts cash flows for a period of 12 months to identify financing requirements. These financing requirements are then addressed through a combination of credit facilities and through access to capital markets if required.

(\$ thousands)	Outstanding balances due by period					
	Carrying amount	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
Accounts payable and accrued liabilities	57,997	57,997				
Distributions payable to Unitholders	20,616	20,616				
Long-term debt (excluding financing fees) ⁽¹⁾	1,140,382	3,644	153,779	216,562	279,811	486,586
Convertible debentures	36,640		36,640			
	1,255,635	82,257	190,419	216,562	279,811	486,586

(1) \$150 million non-revolving credit facility is due December 31, 2010. The \$200 million drawn on the revolving credit facilities is due in July 2012 (1 – 2 years period). The \$75 million non-revolving term facility is due in May 2014 and the \$175 million in fixed rate Senior Unsecured Notes are due in June 2014 (2 – 5 years period). The \$73.4 million balance in fixed rate Senior Secured Notes are due in August 2017, the \$267 million in fixed rate notes is due November 2019, and the \$200 million in fixed rate Senior Unsecured Notes is due September 2021 (>5 years period).

Market risk

Market risk is the risk that the changes in market prices, such as interest rates, foreign exchange rates, power and commodity prices affect the Fund's earnings and the value of financial instruments it holds.

The Fund uses derivative financial instruments to manage exposure to power costs, interest rates, foreign exchange and crude oil and natural gas liquid prices. The Fund does not trade financial instruments for speculative purposes.

Contracts used to manage market risk generally consist of swap contracts. These contracts consist of interest rate swaps and power swap hedges designated as cash flow hedges. These cash flow hedges are used to manage the potential increase or decrease in the price of non-transmission power charges and interest expense on floating rate debt instruments. The Fund has interest rate swaps of \$200 million with several Schedule A Canadian banks.

The Fund, from time to time, enters into commodity swap hedges and foreign exchange hedges but the swaps have an insignificant value and are recorded in current period earnings.

Liquidity and capital resources

	2009	2008
December 31 (\$ thousands)		
Variable rate debt		
Bank debt	359,066	390,000
Senior unsecured notes		75,000
Variable rate debt swapped to fixed	(200,000)	(200,000)
Total variable rate debt outstanding (average rate of 2.99%)	159,066	265,000
Fixed rate debt		
Senior unsecured notes	642,000	375,000
Senior unsecured term debt	75,000	
Senior secured notes	73,382	80,286
Variable rate debt swapped to fixed	200,000	200,000
Total fixed rate debt outstanding (average rate of 5.67%)	990,382	655,286
Convertible debentures	36,640	40,865
Total debt and debentures outstanding	1,186,088	961,151
Cash and unutilized debt facilities	394,861	140,000

The Fund's credit facilities as at December 31, 2009, consisted of an unsecured \$500 million revolving credit facility, an unsecured \$150 million non-revolving credit facility and an operating facility of \$50 million. The unsecured \$150 million non-revolving credit facility is due December 2010 and bears interest at either prime lending rates plus 1.75 percent or Bankers' Acceptances plus 2.75 percent. Borrowings on the revolving credit facilities bear interest at either prime lending rates or based on bankers' acceptances rates plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from zero percent to 2.75 percent. As at December 31, 2009, Pembina had \$359 million drawn on bank debt (including \$9 million in letters of credit) leaving \$394.9 million of cash and unutilized debt facilities on the \$700 million of established bank facilities. At December 31, 2009, the Fund was exposed to changes in interest rates on \$159.1 million of bank borrowings. The Fund has fixed the interest rate on \$200 million of variable rate bank borrowings through interest rate swaps. The interest rate swaps had a fair value of \$6.1 million unrealized loss

as at December 31, 2009 and are for terms of five to ten years. Including the interest swaps, interest rates on \$990.4 million in senior secured and unsecured notes have been fixed, leaving roughly 14 percent of Pembina's outstanding debt exposed to interest rate fluctuations. The Fund is also exposed to changes in the cost of power. At December 31, 2009, the Fund has fixed the price of non-transmission power charges by way of price swap contracts which expire in 2010. The fair value of these contracts at December 31, 2009, was an unrealized gain of \$0.3 million. The power swap hedges the first 16 MW of power consumption each day on the Conventional Pipeline systems. Power costs on Pembina's Oil Sands & Heavy Oil Infrastructure systems are not hedged and as revenue on these pipelines is contracted to recover operating costs, Pembina's net operating income from Oil Sands & Heavy Oil is not impacted by fluctuations in power costs. Assuming a portion of the power was not hedged, every \$5 KW/h change in the Alberta pool price will increase operating expenses by approximately \$0.7 million.

Fair values

The Fund classifies its financial instruments as follows: cash is designated as "held for trading" and is measured at carrying value which approximates fair value due to the short term nature of these instruments. Accounts receivable and other are designated as "loans and receivables" and are measured at amortized cost. The derivative financial instruments are measured at fair value using market rates (interest rate and foreign exchange derivatives) or using quoted market prices (power and commodity derivatives) where available. In the absence of quoted market prices, third-party broker quotes or other valuation techniques are used. Credit risk has been taken into consideration when calculating the fair value of derivatives. Accounts payable and accrued liabilities, distributions payable, long-term debt and convertible debentures are designated as "other liabilities" and recorded at amortized cost. The fair values for the long-term debt are determined by discounting the future contractual cash flows under the note agreements at discount rates which represent borrowing rates available for loans with similar terms and conditions. The fair value of debentures is determined based on available market information. There are no material differences in the carrying amounts of the financial instruments reported on the balance sheet compared to the estimated fair values except as follows:

(\$ thousands)	December 31, 2009		December 31, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt				
Senior secured notes	73,382	86,169	80,286	76,941
Senior unsecured notes	717,000	742,946	450,000	424,208
Convertible debenture	36,640	53,585	40,865	48,243

18. CAPITAL RISK MANAGEMENT

The Fund's objective when managing capital is to safeguard the Fund's ability to provide a stable stream of distributions to Unitholders that is sustainable over the long-term. The Fund distributes all of its net cash flow, subject to retaining an appropriate distribution reserve, financing, making repayments on debt and, if applicable, funding future removal and site restoration reserves.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of its underlying asset base and based on requirements arising from significant capital development activities. The Fund, upon approval from its Board of Directors, will balance its overall capital structure through new Trust Unit or debt issuances as required. Additionally, the Fund has resumed its DRIP to raise new equity.

The Fund maintains a conservative capital structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. The Fund funds its operating commitments, short-term capital spending as well as its distributions to Unitholders through this cash flow, while new borrowing and equity issuances are reserved for the support of specific significant development activities. The capital structure of the Fund consists of Trust Units, deficit and accumulated other comprehensive income. Long-term debt is comprised of bank credit facilities, senior secured and unsecured notes and convertible debentures. The Fund monitors its ratio of total debt (as shown on the balance sheet) to total enterprise value (market value of trust units and debentures) quarterly and remains satisfied that the leverage currently employed in the Fund's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base.

The Fund is not subject to externally imposed capital requirements and the Fund's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

Note 13 of these financial statements demonstrate the change in Trust Units for the year ended 2009.

19. COMMITMENTS

The Fund is committed to annual payments as follows:

(\$ thousands)	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Contractual Obligations	18,143	6,098	11,745	300	
Office and vehicle leases					

The Fund has entered into pipeline agreements that will require future capital expenditures. The remaining cost of construction of additional pipelines to provide the contracted transportation capacity is estimated to cost \$424.4 million.

SUPPLEMENTAL INFORMATION

(unaudited)

CONSOLIDATED BALANCE SHEETS

	2009	2008	2007	2006	2005
Years ended December 31 (\$ thousands)					
Assets					
Current assets:					
Cash and short term investments	53,927	13,638	16,736	1,861	
Accounts receivable and other	83,244	57,614	56,177	44,947	31,012
Inventory	13,493	7,526			
	150,664	78,778	72,913	46,808	31,012
Property, plant and equipment	2,051,422	1,685,394	1,524,887	1,257,729	1,161,691
Goodwill and other	379,039	354,037	358,212	371,667	366,416
Derivative financial instruments			10,796		
	2,581,125	2,118,209	1,966,808	1,676,204	1,559,119
Liabilities and Unitholders' Equity					
Current liabilities:					
Bank indebtedness					7,311
Accounts payable and accrued liabilities	57,997	65,913	59,485	37,411	18,489
Distributions payable to Unitholders	20,616	17,511	15,905	12,622	9,966
Current portion of long-term debt	157,423	81,904	6,422	5,973	7,968
Convertible debentures	36,640			15,133	8,000
	272,676	165,328	81,812	71,139	51,734
Long-term debt	973,522	831,797	772,364	547,396	456,094
Convertible debentures		40,865	47,702	61,679	150,040
Derivative financial instruments	5,481	13,962			
Asset retirement obligations	104,204	84,158	62,236	29,889	19,716
Future income taxes	95,870	98,869	93,957	113,617	137,923
	1,451,753	1,234,979	1,058,071	823,720	815,507
Unitholders' equity					
Trust Units	1,660,795	1,350,694	1,320,692	1,235,809	1,073,537
Deficit	(527,082)	(456,856)	(419,890)	(383,325)	(329,925)
Accumulated other comprehensive income (loss) – cash flow hedges	(4,341)	(10,608)	7,935		
	1,129,372	883,230	908,737	852,484	743,612
	2,581,125	2,118,209	1,966,808	1,676,204	1,559,119

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

	2009	2008	2007	2006	2005
Years ended December 31 (\$ thousands except per Trust Unit amounts)					
Revenues:					
Conventional Pipelines	255,022	263,409	249,056	222,957	204,331
Oil Sands & Heavy Oil	115,565	85,425	61,714	62,120	55,472
Midstream & Marketing	441,209	326,049	194,018	55,801	30,719
	811,796	674,883	504,788	340,878	290,522
Expenses:					
Operations	159,162	150,921	129,628	120,605	102,736
Product purchases	314,372	220,934	115,053	5,060	
General and administrative	51,367	38,632	30,643	24,013	17,091
Management fee				1,027	1,165
Depreciation and amortization	69,822	72,148	66,450	85,619	85,270
Accretion on asset retirement obligations	6,636	5,022	2,665	1,395	1,015
Internalization of management contract		13,800	4,700	6,000	
Gain on sale of linefill and other	317	(42,310)	1,639		
	601,676	459,147	350,778	243,719	207,277
Earnings before interest and taxes	210,120	215,736	154,010	97,159	83,245
Interest on long-term debt	48,869	39,430	29,456	24,880	23,877
Interest on convertible debentures	3,025	3,386	4,769	7,700	16,599
Earnings before taxes	158,226	172,920	119,785	64,579	42,769
Income tax expense (reduction)	(3,852)	11,127	(22,520)	(24,306)	(27,640)
Net earnings	162,078	161,793	142,305	88,885	70,409
Deficit, beginning of year	(456,856)	(419,890)	(383,325)	(329,925)	(286,852)
Distributed cash	(232,304)	(198,759)	(178,870)	(142,285)	(113,482)
Deficit, end of year	(527,082)	(456,856)	(419,890)	(383,325)	(329,925)
Earnings per Trust Unit – basic (dollars)	1.09	1.21	1.09	0.73	0.65
Earnings per Trust Unit – diluted (dollars)	1.07	1.19	1.06	0.73	0.65

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2009	2008	2007	2006	2005
Years ended December 31 (\$ thousands)					
Cash provided by (used in):					
Operating activities:					
Net earnings	162,078	161,793	142,305	88,885	70,409
Items not involving cash:					
Depreciation and amortization	69,822	72,148	66,450	85,619	85,270
Accretion on asset retirement obligations	6,636	5,022	2,665	1,395	1,015
Future income tax expense (reduction)	(3,852)	11,127	(22,520)	(24,306)	(29,377)
Gain on sale of linefill		(42,896)			
Employee future benefits expense	3,878	4,288	4,777	4,620	3,383
Trust Unit based compensation expense	464	766	1,232	1,135	
Other	(705)		1,099	363	362
Employee future benefits contributions	(10,000)	(3,759)	(3,759)	(9,000)	(13,349)
Changes in non-cash working capital	(3,706)	11,416	(2,709)	(4,851)	(5,353)
Cash flow from operating activities	224,615	219,905	189,540	143,860	112,360
Financing activities:					
Bank borrowings	157,149	141,337	239,113	59,862	31,438
Repayment of Senior Secured Notes	(6,904)	(6,422)	(5,973)	(5,555)	(1,764)
Issue of senior debt	342,000			194,842	
Debt repayment	(275,000)			(165,000)	
Issue of Trust Units for cash, net (Cutbank acquisition)	156,222				
Issue of Trust Units on exercise of options	6,569	7,536	7,372	3,271	6,762
Issue of Trust Units under Distribution Reinvestment Plan	142,621	14,863	47,170	76,639	31,250
Distributions to Unitholders:					
– current year	(211,686)	(181,248)	(162,965)	(129,664)	(103,516)
– prior year	(17,511)	(15,905)	(12,622)	(9,966)	(9,007)
Cash flow from financing activities	293,460	(39,839)	112,095	24,429	(44,837)
Investing activities:					
Capital expenditures	(143,830)	(223,976)	(300,312)	(168,955)	(79,457)
Acquisition of Cutbank assets	(297,043)				
Proceeds on sale of linefill		54,764			
Changes in non-cash working capital	(36,913)	(13,952)	13,552	9,838	7,594
Cash flow from investing activities	(477,786)	(183,164)	(286,760)	(159,117)	(71,863)
Change in cash	40,289	(3,098)	14,875	9,172	(4,340)
Cash (bank indebtedness), beginning of year	13,638	16,736	1,861	(7,311)	(2,971)
Cash (bank indebtedness), end of year	53,927	13,638	16,736	1,861	(7,311)

FIVE YEAR OPERATING STATISTICS

	2009	2008	2007	2006	2005
Years ended December 31					
Average annual throughput (in thousands of barrels per day)					
Alberta					
Conventional crude oil	213.5	246.8	242.7	235.1	213.5
Condensate	44.4	48.3	49.4	50.3	53.2
Natural gas liquids	116.1	121.5	130.6	140.4	144.9
Total Alberta pipeline systems	374.0	416.6	422.7	425.8	411.6
British Columbia (BC)					
Conventional crude oil	19.3	22.6	24.4	22.7	23.8
Oil Sands & Heavy Oil ⁽¹⁾					
Synthetic crude oil	775.0	775.0	525.0	389.0	389.0
Average daily Cutbank Complex (mmcf/d)	197.4				
Total Pembina					
Conventional crude oil	232.8	269.4	267.1	257.8	237.3
Synthetic crude oil ⁽¹⁾	775.0	775.0	525.0	389.0	389.0
Condensate	44.4	48.3	49.4	50.3	53.2
Natural gas liquids	116.1	121.5	130.6	140.4	144.9
Total average throughput	1,168.3	1,214.2	972.1	837.5	824.4
Throughput composition (% of total)					
Condensate and conventional crude oil	20.0%	22.2%	27.5%	30.8%	28.8%
Synthetic crude oil	66.3%	63.8%	54.0%	46.4%	47.2%
Natural gas liquids	13.7%	14.0%	18.5%	22.8%	24.0%
Pipeline revenue (\$ millions)					
Alberta	222.4	224.3	216.4	195.2	179.0
BC	32.6	39.1	32.7	27.8	25.3
Oil Sands & Heavy Oil	115.6	85.4	61.7	62.1	55.5
Pipeline revenue	370.6	348.8	310.8	285.1	259.8
Midstream & Marketing revenue	126.8	105.1	79.0	50.7	30.7
Total revenue	497.4	453.9	389.8	335.8	290.5
Average conventional pipelines revenue (dollars per barrel) (excluding Oil Sands & Heavy Oil and Midstream & Marketing results)					
	1.65	1.55	1.43	1.27	1.20

(1) Oil Sands & Heavy Oil pipelines are shown as contracted capacity as revenue is independent of throughput.

QUARTERLY FINANCIAL STATISTICS

(\$ thousands, except per Trust Unit amounts)	2009				Year ended Dec. 31/09	Year ended Dec. 31/08
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Revenue	158,034	185,467	211,858	256,437	811,796	674,883
Product purchases	41,927	64,412	80,835	127,198	314,372	220,934
Operating expense	44,129	35,784	39,550	39,699	159,162	150,921
General and administrative	10,918	12,408	11,132	16,909	51,367	38,632
Depreciation and amortization	19,395	20,247	16,965	13,215	69,822	72,148
Accretion on asset retirement obligations	1,256	2,916	2,186	278	6,636	5,022
Internalization of management contract						13,800
Gain on sale of linefill and other	42	(258)	337	197	317	(42,310)
Earnings before interest and taxes	40,367	49,958	60,853	58,942	210,120	215,736
Interest on long-term debt	10,289	11,525	12,979	14,076	48,869	39,430
Interest on convertible debentures	765	777	750	733	3,025	3,386
Income tax expense (reduction)	1,032	1,483	2,428	(8,795)	(3,852)	11,127
Net Earnings	28,281	36,173	44,696	52,928	162,078	161,793
Add/(Deduct):						
Depreciation and amortization	19,395	20,247	16,965	13,215	69,822	72,148
Accretion on asset retirement obligations	1,256	2,916	2,186	278	6,636	5,022
Future income tax expense (reduction)	1,032	1,483	2,428	(8,795)	(3,852)	11,127
Gain on sale of linefill						(42,896)
Increase in distribution reserve	3,210	(3,317)	(6,056)	3,783	(2,380)	(8,435)
Distributed Cash ⁽¹⁾	53,174	57,502	60,219	61,409	232,304	198,759
Trust Units outstanding (weighted average in thousands)	136,344	147,487	154,404	157,477	149,001	133,380
Distributed cash per Trust Unit (dollars)	0.39	0.39	0.39	0.39	1.56	1.49
– taxable “income from a trust”	0.29553	0.29553	0.29553	0.29553	1.18211	1.20803
– non-taxable “capital distribution from a trust”	0.94472	0.94472	0.94472	0.94472	0.37789	0.28197

(1) Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation and other operating subsidiaries.

QUARTERLY SEGMENTED INFORMATION

(\$ millions)	2009				Year ended Dec. 31/09	Year ended Dec. 31/08
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Operating Revenue						
Conventional Pipelines	66.1	63.7	62.2	63.0	255.0	263.4
Oil Sands & Heavy Oil	29.8	27.5	28.5	29.8	115.6	85.4
Midstream & Marketing	20.2	29.9	40.4	36.3	126.8	105.1
Total	116.1	121.1	131.1	129.1	497.4	453.9
Operating Expense						
Conventional Pipelines	32.4	25.2	24.0	23.0	104.6	113.2
Oil Sands & Heavy Oil	8.9	6.6	8.4	10.1	34.0	28.7
Midstream & Marketing	2.9	4.0	7.2	6.5	20.6	9.0
Total	44.2	35.8	39.6	39.6	159.2	150.9
Net Operating Income						
Conventional Pipelines	33.7	38.5	38.2	40.0	150.4	150.2
Oil Sands & Heavy Oil	20.9	20.9	20.1	19.7	81.6	56.7
Midstream & Marketing	17.3	25.9	33.2	29.8	106.2	96.1
Total	71.9	85.3	91.5	89.5	338.2	303.0

QUARTERLY OPERATING STATISTICS

	2009				Year ended Dec. 31/09	Year ended Dec. 31/08
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Average Throughput – by pipeline system (thousands of barrels per day)						
Alberta ⁽¹⁾	392.1	373.2	369.7	361.2	374.0	416.6
BC ⁽¹⁾	20.4	18.9	19.6	18.2	19.3	22.6
Oil Sands & Heavy Oil ⁽²⁾	775.0	775.0	775.0	775.0	775.0	775.0
Total average throughput	1,187.5	1,167.1	1,164.3	1,154.4	1,168.3	1,214.2
Conventional Pipelines Revenue (\$ per barrel)						
Alberta	1.59	1.62	1.58	1.62	1.60	1.47
BC	2.29	1.91	1.84	2.23	2.06	2.17
Average	1.66	1.65	1.61	1.68	1.65	1.55
Operating Expense (\$ per barrel)						
Alberta	0.79	0.63	0.60	0.59	0.65	0.63
BC	1.17	1.03	0.83	0.89	0.98	0.99

(1) Certain prior period volumes have been adjusted as months have been settled.

(2) Results for Oil Sands & Heavy Oil pipelines show contracted capacity rather than actual throughput.

TRUST UNIT TRADING ACTIVITY ⁽¹⁾

	2009					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/09	Year ended Dec. 31/08
Unit trading price (\$ per Trust Unit)						
– high	15.79	15.56	15.69	17.85	17.85	18.79
– low	11.68	12.88	14.00	15.05	11.68	11.97
– close	13.98	14.86	15.40	17.52	17.52	15.24
Volume traded (number of Trust Units)	16,324,078	23,826,375	20,444,013	19,642,251	80,236,717	54,477,506
Value traded (dollars)	224,965,452	336,824,577	308,562,019	315,622,048	1,185,974,096	884,058,820
Trust Units outstanding (end of period)	137,246,119	152,670,162	155,354,016	158,588,699	158,588,699	134,703,067
Trust Units outstanding (weighted average)	136,343,767	147,486,804	154,406,114	157,477,059	149,001,343	133,380,417

(1) Pembina Pipeline Income Fund Trust Units trade on the Toronto Stock Exchange under the symbol PIF.UN.

HISTORIC UNITHOLDER DISTRIBUTIONS AND TAX TREATMENT ⁽¹⁾

	1998	1999	2000	2001	2002	2003
(\$ per Trust Unit)						
Total annual distribution declared	0.950000	0.950000	0.960000	1.050000	1.050000	1.050000
Taxable "other income"	0.618900	0.783000	0.770208	0.900768	0.893160	0.970680
Non-taxable "return of capital"	0.331100	0.167000	0.189792	0.149232	0.156840	0.079320
Cost base – beginning of period	9.959200	9.628100	9.461100	9.271308	9.122076	8.965236
Less: return of capital	0.331100	0.167000	0.189792	0.149232	0.156840	0.079320
Cost base – end of period	9.628100	9.461100	9.271308	9.122076	8.965236	8.885916
	2004	2005	2006	2007	2008	2009
Total annual distribution declared	1.050000	1.050000	1.165000	1.370000	1.490000	1.560000
Taxable "other income"	1.037880	0.888480	0.894341	1.180260	1.208030	1.182120
Non-taxable "return of capital"	0.012120	0.161520	0.270658	0.189740	0.281970	0.377890
Cost base – beginning of period	8.885916	8.873796	8.712276	8.441618	8.251878	7.969908
Less: return of capital	0.012120	0.161520	0.270658	0.189740	0.281970	0.377890
Cost base – end of period	8.873796	8.712276	8.441618	8.251878	7.969908	7.592018

(1) Cost base for units held from inception (October 1997).

MANAGEMENT & BOARD OF DIRECTORS

MANAGEMENT

The members of Pembina's executive team have been actively engaged in the oil and gas industry in Western Canada for numerous years. Their combined experience is crucially important to ensuring the successful execution of Pembina's business strategy. All members of Pembina's executive team are also officers of Pembina Pipeline Corporation.

Robert B. Michaleski
President and Chief Executive Officer

Michael H. Dilger
Chief Operating Officer

Glenys E. Hermanutz
Vice President, Corporate Affairs

Barbara S. Jack
Vice President, Human Resources

Robert M. Jones
Vice President, Midstream & Marketing

Peter D. Robertson
Vice President and Chief Financial Officer

Stuart V. Taylor
Vice President, Gas Services

D. James Watkinson
Vice President, General Counsel and Secretary

BOARD OF DIRECTORS

The Board of Directors of Pembina Pipeline Corporation, a wholly-owned subsidiary of Pembina Pipeline Income Fund, is responsible for overseeing the governance of the Fund. Eight of the nine directors, including the Chairman of the Board, are independent within the meaning provided by Canadian securities laws. The President and Chief Executive Officer is the only director who is not independent. All directors are elected by Unitholders at the annual general meeting of the Fund.

Pembina's Board members are listed below. For further information about each Board member and the mandates of each committee, please see the Pembina Pipeline Income Fund management information circular filed with regulators and available at www.pembina.com.

Lorne B. Gordon
Director since October 1997
Chairman of the Board
Audit Committee
Governance Committee

David A. Bissett
Director since May 2001
Health, Safety and Environment Committee
Human Resources and Compensation Committee

Allan L. Edgeworth
Director since July 2006
Chair, Health, Safety and Environment Committee
Governance Committee

Randall J. Findlay
Director since March 2007
Chair, Human Resources and Compensation Committee

Douglas J. Haughey
Director since December 2008
Audit Committee
Human Resources and Compensation Committee

Myron F. Kanik
Director since October 1997
Chair, Governance Committee
Human Resources and Compensation Committee

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

Leslie A. O'Donoghue
Director since December 2008
Audit Committee
Health, Safety and Environment Committee

Robert F. Taylor
Director since October 1997
Chair, Audit Committee
Governance Committee

CORPORATE INFORMATION

HEAD OFFICE

Pembina Pipeline Corporation
Suite 2000, 700 – 9th Avenue S.W.
Calgary, Alberta T2P 3V4

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

TRUSTEE AND REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Suite 600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8
1-800-564-6253

STOCK EXCHANGE

Pembina Pipeline Income Fund
Trust Units are listed on the Toronto Stock
Exchange under the symbol PIF.UN
7.35% Convertible Debentures symbol PIF.DB.B

INVESTOR INQUIRIES CONTACT

Phone (403) 231-7500
Fax (403) 237-0254
Toll Free 1-888-428-3222
Email investor-relations@pembina.com
Website www.pembina.com

ANNUAL GENERAL AND SPECIAL MEETING

Unitholders are invited to attend Pembina's annual general and special meeting on May 7, 2010 at 2 pm. The meeting will be held in the Grand Lecture Theatre, The Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN

Pembina offers a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (DRIP) to eligible Unitholders of the Pembina Pipeline Income Fund. The DRIP allows participants an opportunity to:

- reinvest distributions into Trust Units at a five percent discount to a weighted average market price, under the distribution reinvestment component of the plan; or,
- realize two percent more cash on their distributions, under the premium distribution component of the plan.

Eligible Unitholders may also make optional Trust Unit purchases at the weighted average market price.

A brochure, detailing administration of the DRIP and eligibility and enrolment information, is available on-line at www.pembina.com, or call **1-888-428-3222** to receive a copy by mail. Unitholders wishing to enroll in the DRIP are asked to contact their broker, financial advisor or financial institution.





Pembina Pipeline Income Fund

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Calgary, Alberta T2P 3V4

403-231-7500

1-888-428-3222

www.pembina.com