

2005 BCSECCOM 71

November 10, 2004

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - National Instrument 44-101, s. 15.1 – An issuer wants relief from the requirement to calculate the significance tests relating to a potential acquisition of oil and gas assets using the asset test, and to base the income test on consolidated income from continuing operations - The applicant is acquiring an oil and gas business, including an interest in an oil and gas property, by acquiring an unincorporated joint venture; the joint venture has not prepared audited financial statements; the joint venture does not constitute a “reportable segment” of either of the sellers of the joint venture; it is impractical to derive an earnings figure beyond operating income for the business; the applicant will test the significance of the acquisition using the investment test and income test based on an unaudited statement of operations for the business

Applicable British Columbia Provisions

National Instrument 44-101 *Short Form Prospectus Distributions*, ss. 1.2 and 15.1

In the Matter of
the Securities Legislation of

Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, New
Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Pembina Pipeline Income Fund (the “Filer”)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the “Decision Maker”) in each of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador (the “Jurisdictions”) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions and in Quebec by a revision of the general order that will provide the same result as an exemption order (the “Legislation”) for:

2005 BCSECCOM 71

- (a) an exemption from the requirements under National Instrument 44-101 and National Instrument 51-102 that the Filer apply certain significance tests as contained within the Legislation (the “Significance Tests”) with respect to a potential acquisition (as described below) by the Filer; and
- (b) an order from the Decision Makers that the application of the Filer, the supporting materials and this MRRS Decision Document are to be held in confidence by the Decision Makers until the earlier of: (i) the Filer or either of EnCana Corporation (“EnCana”) or NOVA Chemicals Corporation (“NOVA”) publicly disclosing that the Filer has made a successful bid to acquire the Business (as defined below), or (ii) January 15, 2005,

(collectively with (a), the “Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the Alberta Securities Commission is the principal regulator for this application; and
- (b) this MRRS Decision Document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 Definitions, National Instrument 51-102 Continuous Disclosure Obligations and National Instrument 44-101 Short Form Prospectus Distributions have the same meaning in this decision unless they are defined in this MRRS Decision Document.

Representations

This decision is based on the following facts represented by the Filer:

The Filer

1. The Filer is an open-ended, single purpose trust established pursuant to a declaration of trust dated September 4, 1997, as amended and restated, under the laws of the Province of Alberta with its head office located in Calgary, Alberta.
2. Pembina Pipeline Corporation (“Pembina”), a wholly-owned subsidiary of the Filer, is an Alberta corporation which, directly or indirectly through its

2005 BCSECCOM 71

subsidiaries, owns interests in 14 oil and NGLs pipeline systems and a 50% interest in an underground ethylene storage facility.

3. The Filer is a “reporting issuer” or has equivalent status in the Jurisdictions within the meaning of the Legislation.
4. The trust units and convertible debentures of the Filer are listed on the Toronto Stock Exchange.

The Potential Acquisition

5. EnCana through its wholly-owned subsidiary, NOVA and a third party (“JV Owner”) are venturers in an unincorporated joint venture (“JV”) that owns the Alberta Ethane Gathering System pipeline (the “System”), the shares of Alberta Ethane Development Company Ltd. (“AEDC”) and related assets (collectively, the “Business”).
6. EnCana is a reporting issuer in all provinces whose consolidated assets as at December 31, 2004 were approximately US\$24 billion. NOVA is a reporting issuer in all provinces whose consolidated assets at December 31, 2004 were approximately \$4.4 billion.
7. As the JV is an unincorporated entity it does not file separate tax returns and has not, to the knowledge of the Filer, prepared financial statements in accordance with Canadian generally accepted accounting principles. To the knowledge of the Filer, the interests in the Business held by each of EnCana and NOVA do not constitute a “reportable segment” of either such entity, as defined in section 1701 of the Handbook of the Canadian Institute of Chartered Accountants.
8. The System is the pipeline system that provides transportation of specification ethane from extraction facilities to the Alberta petrochemical industry, and to ethane storage facilities and export pipelines. AEDC is a special purpose corporation that has been appointed as the agent of, and trustee for, the Owners (as defined below).
9. Each of EnCana, NOVA and JV Owner hold, directly or indirectly, an undivided one-third interest in the Business (each of EnCana, NOVA and JV Owner are referred to generically as an “Owner”). JV Owner is a subsidiary of a large, multinational entity organized in a foreign jurisdiction. NOVA holds its interest in the Business directly and EnCana holds its interest in the Business indirectly through a wholly-owned subsidiary, 905435 Alberta Ltd.

2005 BCSECCOM 71

10. JV Owner has reached an agreement to sell its joint venture interest in the Business, and has offered its interest to EnCana and NOVA pursuant to a right of first offer process in the underlying agreements governing the JV.
11. Pursuant to a confidential sale process, EnCana and NOVA have solicited bids from prospective purchasers interested in acquiring their direct and indirect interests in the Business and have advised the Filer that they anticipate exercising JV Owner's right of first offer in conjunction with their sale process, so as to be able to sell a 100% interest in the Business to a purchaser.

The Issues

12. EnCana and NOVA have indicated to Pembina that no audited financial statements have been prepared or are available in respect of the Business. In order to facilitate the application by the Filer of the Significance Tests, EnCana and NOVA are arranging to have prepared an unaudited statement of operations for 100% of the Business, which will reflect operating revenues less operating expenses and overhead charges, the net amount being "operating income" for the Business for the year ended December 31, 2003 (the "Proposed Financial Statement").
13. As the Business is carried on through an unincorporated joint venture it is impracticable to derive an earnings figure beyond operating income, as defined herein, due to the fact that the JV is an unincorporated entity and the Owners have separate and distinct capital structures within which they have implicitly financed their JV interest. Further each Owner independently determines and applies depreciation and amortization expense and incurs income tax based on their own consolidated financial results and taxable income.

Confidentiality Request

14. It is uncertain whether the Filer will be the successful bidder for the Business. As such, the Filer is not required to, and has not yet, publicly disclosed the fact that the Filer is pursuing the acquisition of the Business.
15. Public disclosure of the fact that the Filer was actively pursuing a bid to acquire the Business, as well as its consideration of raising funds to finance the acquisition by way of a public offering of securities, would be unduly detrimental to the Filer's interests in that it would (a) potentially provide competing bidders with confidential information regarding the Filer's bid and its plans for financing the acquisition of the Business that would give the other bidders an unfair advantage in the bidding process and (b) prejudice the Filer's

2005 BCSECCOM 71

negotiations with EnCana and NOVA, which have been conducted to date on a confidential basis. The Filer has signed a confidentiality agreement with EnCana and NOVA pursuant to which it has agreed not to disclose information regarding the Business or the sale process.

16. In the event that the Filer is selected as the successful bidder for the Business and enters into a definitive purchase agreement with NOVA and EnCana the Filer intends to disclose such fact to the public by way of a news release and to file a material change report with in the Jurisdictions in accordance with the requirements of the Legislation. As noted previously, the definitive bid, and the determination as to whether the Filer's bid is successful, is expected to be made on or about November 12, 2004.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that the Requested Relief is granted,

- (a) provided that the filer apply a revised version of the Significance Tests by:

- (i) using the Proposed Financial Statement of the Business for the year ended December 31, 2003; and
- (ii) applying both: (i) the Income Test, calculated in accordance with the Legislation using “operating income” of the Business as set forth in the Proposed Financial Statement, and of the Filer based on its audited consolidated statement of earnings for the year ended December 31, 2003; and (ii) the Investment Test as set forth in the Legislation;

- (b) and that the application of the Filer, the supporting materials and this MRRS Decision Document will be held in confidence by the Decision Makers until the earlier of: (i) the Filer or either of EnCana or NOVA publicly disclosing that the Filer has made a successful bid to acquire the Business (as defined below), or (ii) January 15, 2005.

DATED at Calgary, Alberta on this 10th day of November, 2004.

Mavis Legg, CA
Manager, Securities Analysis