

PART IV

Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a) (1) and (2) **Financial Statements and Financial Statement Schedules**

See “Index to the Consolidated Financial Statements” set forth on Page F-1.

All schedules are omitted because they are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a) (3) **Exhibits**

- 3.1 —Third Amended and Restated Agreement of Limited Partnership of Plains All American Pipeline, L.P. dated as of June 27, 2001 (incorporated by reference to Exhibit 3.1 to Form 8-K filed August 27, 2001).
- 3.2 —Second Amended and Restated Agreement of Limited Partnership of Plains Marketing, L.P. dated as of June 27, 2001 (incorporated by reference to Exhibit 3.2 to Form 8-K filed August 27, 2001).
- 3.3 —Second Amended and Restated Agreement of Limited Partnership of All American Pipeline, L.P. dated as of June 27, 2001 (incorporated by reference to Exhibit 3.3 Form 8-K filed August 27, 2001).
- 3.4 —Certificate of Limited Partnership of Plains All American Pipeline, L.P. (incorporated by reference to Exhibit 3.4 to Registration Statement, file No. 333-64107).
- 3.5 —Certificate of Limited Partnership of Plains Marketing, L.P. dated as of November 10, 1998 (incorporated by reference to Exhibit 3.5 to Annual Report on Form 10-K for the Year Ended December 31, 1998).
- 3.6 —Articles of Conversion of All American Pipeline Company dated as of November 10, 1998 (incorporated by reference to Exhibit 3.5 to Annual Report on Form 10-K for the Year Ended December 31, 1998).
- 3.7 —Amended and Restated Limited Partnership Agreement of Plains AAP, L.P., dated as of June 8, 2001 (incorporated by reference to Exhibit 3.1 to Form 8-K filed June 11, 2001).
- 3.8 —Amended and Restated Limited Liability Company Agreement of Plains All American GP, LLC dated as of June 8, 2001 (incorporated by reference to Exhibit 3.2 to Form 8-K filed June 11, 2001).
- 4.1 —Registration Rights Agreement, dated as of June 8, 2001, among Plains All American Pipeline, L.P., Sable Holdings, L.P., E-Holdings III, L.P., KAFU Holdings, LP, PAA Management, L.P., Mark E. Strome, Strome Hedgecap Fund, L.P., John T. Raymond and Plains All American Inc. (incorporated by reference to Exhibit 4.1 to Form 8-K filed June 11, 2001).
- 4.2 —Indenture dated as of September 25, 2002 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q for the Quarter ended September 30, 2002).
- 4.3 —First Supplemental Indenture dated as of September 25, 2002 (incorporated by reference to Exhibit 4.2 to Quarterly Report on Form 10-Q for the Quarter ended September 30, 2002).
- 4.4 —Registration Rights Agreement dated September 25, 2002 (incorporated by reference to Exhibit 4.3 to Quarterly Report on Form 10-Q for the Quarter ended September 30, 2002).
- 10.01 —Contribution, Assignment and Amendment Agreement, dated as of June 27, 2001, among Plains All American Pipeline, L.P., Plains Marketing, L.P., All American Pipeline, L.P., Plains AAP, L.P., Plains All American GP LLC and Plains Marketing GP Inc. (incorporated by reference to Exhibit

10.1 to Form 8-K filed June 27, 2001).

- 10.02 —Contribution, Assignment and Amendment Agreement, dated as of June 8, 2001, among Plains All American Inc., Plains AAP, L.P. and Plains All American GP LLC (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 11, 2001).
- 10.03 —Separation Agreement, dated as of June 8, 2001 among Plains Resources Inc., Plains All American Inc., Plains All American GP LLC, Plains AAP, L.P. and Plains All American Pipeline, L.P. (incorporated by reference to Exhibit 10.2 to Form 8-K filed June 11, 2001).
- 10.04 —Pension and Employee Benefits Assumption and Transition Agreement, dated as of June 8, 2001 among Plains Resources Inc., Plains All American Inc. and Plains All American GP LLC (incorporated by reference to Exhibit 10.3 to Form 8-K filed June 11, 2001).
- **10.05 —Plains All American GP LLC 1998 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 to Registration Statement on Form S-8, File No. 333-74920).
- **10.06 —Plains All American 2001 Performance Option Plan (incorporated by reference to Exhibit 99.2 to Registration Statement on Form S-8, File No. 333-74920).
- **10.07 —Phantom MLP unit Agreement for Greg L. Armstrong (incorporated by reference to Exhibit 99.3 to Registration Statement on Form S-8, File No. 333-74920).
- **10.08 —Phantom MLP Unit Agreement for Phillip D. Kramer (incorporated by reference to Exhibit 99.5 to Registration Statement on Form S-8, File No. 333-74920).
- **10.09 —Phantom MLP Unit Agreement for Tim Moore (incorporated by reference to Exhibit 99.6 to Registration Statement on Form S-8, File No. 333-74920).
- **10.10 —Phantom MLP Unit Agreement for Harry N. Pefanis (incorporated by reference to Exhibit 99.7 to Registration Statement on Form S-8, File No. 333-74920).
- **10.11 —Amended and Restated Employment Agreement between Plains All American GP LLC and Greg L. Armstrong dated as of June 30, 2001 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2001).
- **10.12 —Amended and Restated Employment Agreement between Plains All American GP LLC and Harry N. Pefanis dated as of June 30, 2001 (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2001).
- 10.13 —Asset Purchase and Sale Agreement between Murphy Oil Company Ltd. And Plains Marketing Canada, L.P. (incorporated by reference to Form 8-K filed May 10, 2001).
- 10.14 —Crude Oil Marketing Agreement among Plains Resources Inc., Plains Illinois Inc., Stocker Resources, L.P., Calumet Florida, Inc. and Plains Marketing, L.P. dated as of November 23, 1998 (incorporated by reference to Exhibit 10.07 to Annual Report on Form 10-K for the Year Ended December 31, 1998).
- 10.15 —Omnibus Agreement among Plains Resources Inc., Plains All American Pipeline, L.P., Plains Marketing, L.P., All American Pipeline, L.P., and Plains All American Inc. dated as of November 23, 1998 (incorporated by reference to Exhibit 10.08 to Annual Report on Form 10-K for the Year Ended December 31, 1998).
- 10.16 —Transportation Agreement dated July 30, 1993, between All American Pipeline Company and Exxon Company, U.S.A. (incorporated by reference to Exhibit 10.9 to Registration Statement, file No. 333-64107).

- 10.17 —Transportation Agreement dated August 2, 1993, between All American Pipeline Company and Texaco Trading and Transportation Inc., Chevron U.S.A. and Sun Operating Limited Partnership (incorporated by reference to Exhibit 10.10 to Registration Statement, File No. 333-64107).
- 10.18 —First Amendment to Contribution, Conveyance and Assumption Agreement dated as of December 15, 1998 (incorporated by reference to Exhibit 10.13 to Annual Report on Form 10-K for the Year Ended December 31, 1998).
- 10.19 —Agreement for Purchase and Sale of Membership Interest in Scurlock Permian LLC between Marathon Ashland LLC and Plains Marketing, L.P. dated as of March 17, 1999 (incorporated by reference to Exhibit 10.16 to Annual Report on Form 10-K for the Year Ended December 31, 1998).

* Filed herewith

** Management contract or compensatory plan or arrangement

(b) Reports on Form 8-K

A Current Report on Form 8-K was furnished on February 26, 2003, in connection with disclosure of first quarter estimates and earnings guidance.

A Current Report on Form 8-K was filed on November 15, 2002, including as an exhibit pro forma financial statements, in connection with the registration of \$200 million of 7.75% senior notes.

A Current Report on Form 8-K was filed on November 8, 2002, including as an exhibit the balance sheet of Plains AAP, L.P. as of June 30, 2002.

A Current Report on Form 8-KA was furnished on November 5, 2002, to correct certain information in the October 29, 2002, 8-K.

A Current Report on Form 8-K was furnished on October 29, 2002, in connection with disclosure of fourth quarter estimates and earnings guidance.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLAINS ALL AMERICAN PIPELINE, L.P.

By: PLAINS AAP, L.P.,
its general partner

By: PLAINS ALL AMERICAN GP LLC,
its general partner

Date: February 28, 2003

By: /s/ GREG L. ARMSTRONG

**Greg L. Armstrong, Chairman of the Board, Chief
Executive Officer and Director of Plains All
American GP LLC (Principal Executive Officer)**

Date: February 28, 2003

By: /s/ PHILLIP D. KRAMER

**Phillip D. Kramer, Executive Vice President and
Chief Financial Officer of Plains All American GP
LLC (Principal Financial and Accounting Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ GREG L. ARMSTRONG <hr/> Greg L. Armstrong	Chairman of the Board, Chief Executive Officer and Director of Plains All American GP LLC (Principal Executive Officer)	Date: February 28, 2003
/s/ HARRY N. PEFANIS <hr/> Harry N. Pefanis	President and Chief Operating Officer of Plains All American GP LLC	Date: February 28, 2003
/s/ PHILLIP D. KRAMER <hr/> Phillip D. Kramer	Executive Vice President and Chief Financial Officer of Plains All American GP LLC (Principal Financial and Accounting Officer)	Date: February 28, 2003
/s/ EVERARDO GOYANES <hr/> Everardo Goyanes	Director of Plains All American GP LLC	Date: February 28, 2003
/s/ GARY R. PETERSEN <hr/> Gary R. Petersen	Director of Plains All American GP LLC	Date: February 28, 2003
/s/ JOHN T. RAYMOND <hr/> John T. Raymond	Director of Plains All American GP LLC	Date: February 28, 2003
/s/ ROBERT V. SINNOTT <hr/> Robert V. Sinnott	Director of Plains All American GP LLC	Date: February 28, 2003
/s/ ARTHUR L. SMITH <hr/> Arthur L. Smith	Director of Plains All American GP LLC	Date: February 28, 2003
/s/ J. TAFT SYMONDS <hr/> J. Taft Symonds	Director of Plains All American GP LLC	Date: February 28, 2003

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PLAINS ALL AMERICAN PIPELINE, L.P.

I, Greg L. Armstrong, certify that:

1. I have reviewed this annual report on Form 10-K of Plains All American Pipeline, L.P.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28,
2003

/s/ GREG L.
ARMSTRONG

Greg L. Armstrong
Chief Executive
Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PLAINS ALL AMERICAN PIPELINE, L.P.

I, Phillip D. Kramer, certify that:

1. I have reviewed this annual report on Form 10-K of Plains All American Pipeline, L.P.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28,
2003

/s/ PHILLIP D.
KRAMER

Phillip D. Kramer
Chief Financial
Officer

PLAINS ALL AMERICAN PIPELINE, L.P.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the General Partner and the Unitholders of
Plains All American Pipeline, L.P.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows, of changes in partners' capital, of comprehensive income and of changes in accumulated other comprehensive income (loss) present fairly, in all material respects, the financial position of Plains All American Pipeline, L.P. and its subsidiaries (the "Partnership") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Partnership's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Partnership changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

PricewaterhouseCoopers LLP

Houston, Texas
February 26, 2003

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit data)

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,501	\$ 3,511
Accounts receivable, net	499,909	357,619
Inventory	81,849	188,874
Other current assets	17,676	8,078
	<u>602,935</u>	<u>558,082</u>
PROPERTY AND EQUIPMENT		
Accumulated depreciation	1,030,303	653,050
	(77,550)	(48,131)
	<u>952,753</u>	<u>604,919</u>
OTHER ASSETS		
Pipeline linefill	62,558	57,367
Other, net	48,329	40,883
	<u>\$1,666,575</u>	<u>\$1,261,251</u>
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable	\$ 488,922	\$ 372,889
Due to related parties	23,301	13,685
Short-term debt and current portion of long-term debt	99,249	104,482
Other current liabilities	25,777	14,104
	<u>637,249</u>	<u>505,160</u>
LONG-TERM LIABILITIES		
Long-term debt under credit facilities	310,126	351,677
Senior notes, net of unamortized discount of \$390	199,610	—
Other long-term liabilities and deferred credits	7,980	1,617
	<u>1,154,965</u>	<u>858,454</u>
COMMITMENTS AND CONTINGENCIES (Note 14)		
PARTNERS' CAPITAL		
Common unitholders (38,240,939 and 31,915,939 units outstanding at December 31, 2002 and 2001, respectively)	524,428	408,562
Class B Common unitholder (1,307,190 units outstanding at each date)	18,463	19,534
Subordinated unitholders (10,029,619 units outstanding at each date)	(47,103)	(38,891)
General partner	15,822	13,592
	<u>511,610</u>	<u>402,797</u>

\$1,666,575 \$1,261,251

The accompanying notes are an integral part of these consolidated financial statements.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

	Year Ended December 31,		
	2002	2001	2000
REVENUES	\$8,384,223	\$6,868,215	\$6,641,187
COST OF SALES AND OPERATIONS	8,209,932	6,720,970	6,506,504
UNAUTHORIZED TRADING LOSSES AND RELATED EXPENSES (Note 3)	—	—	6,963
INVENTORY VALUATION ADJUSTMENT (Note 2)	—	4,984	—
Gross Margin	174,291	142,261	127,720
EXPENSES			
General and administrative	45,663	46,586	40,821
Depreciation and amortization	34,068	24,307	24,523
Total expenses	79,731	70,893	65,344
OPERATING INCOME	94,560	71,368	62,376
Interest expense	(29,057)	(29,082)	(28,691)
Gains on sales of assets (Note 5)	—	984	48,188
Interest and other income (expense), net (Note 10)	(211)	401	10,776
Income before extraordinary item and cumulative effect of accounting change	65,292	43,671	92,649
Extraordinary item (Note 10)	—	—	(15,147)
Cumulative effect of accounting change (Note 2)	—	508	—
NET INCOME	\$ 65,292	\$ 44,179	\$ 77,502
NET INCOME—LIMITED PARTNERS	\$ 60,912	\$ 42,239	\$ 75,754
NET INCOME—GENERAL PARTNER	\$ 4,380	\$ 1,940	\$ 1,748
BASIC AND DILUTED NET INCOME PER LIMITED PARTNER UNIT			
Income before extraordinary item and cumulative effect of accounting change	\$ 1.34	\$ 1.12	\$ 2.64
Extraordinary item	—	—	(0.44)
Cumulative effect of accounting change	—	0.01	—
Net income	\$ 1.34	\$ 1.13	\$ 2.20
WEIGHTED AVERAGE UNITS OUTSTANDING	45,546	37,528	34,386

The accompanying notes are an integral part of these consolidated financial statements.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 65,292	\$ 44,179	\$ 77,502
Items not affecting cash flows from operating activities:			
Depreciation and amortization	34,068	24,307	24,523
Gains on sales of assets (Note 5)	—	(984)	(48,188)
Cumulative effect of accounting change	—	(508)	—
Noncash compensation expense	—	5,741	3,089
Allowance for doubtful accounts	146	3,000	5,000
Inventory valuation adjustment	—	4,984	—
Other noncash items	(242)	(207)	4,574
Change in assets and liabilities, net of acquisitions:			
Accounts receivable and other	(136,481)	(18,856)	120,497
Inventory	105,944	(117,878)	(11,954)
Pipeline linefill	(11,060)	(13,736)	(16,679)
Accounts payable and other current liabilities	106,065	46,671	(161,543)
Due to related party	8,962	(7,266)	(21,741)
Other long-term liabilities and deferred credits	1,200	600	(8,591)
Net cash provided by (used in) operating activities	<u>173,894</u>	<u>(29,953)</u>	<u>(33,511)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions (Note 4)	(324,628)	(229,162)	—
Additions to property and equipment	(40,590)	(21,069)	(12,603)
Net proceeds from sale of property and equipment (Note 5)	1,437	740	223,604
Net cash provided by (used in) investing activities	<u>(363,781)</u>	<u>(249,491)</u>	<u>211,001</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of units (Note 8)	145,046	227,549	—
Costs incurred in connection with financing arrangements	(5,435)	(6,351)	(6,748)
Proceeds from the issuance of senior notes	199,600	—	—
Payments on subordinated notes—general partner	—	—	(114,000)
Net borrowings (repayments) on long-term revolving credit facility	(42,144)	34,677	9,900
Net borrowings (repayments) on short-term letter of credit and hedged inventory facility	(4,770)	99,583	(57,419)
Principal payments on senior secured term loans	(3,000)	—	—
Distributions paid to unitholders and general partner	(99,841)	(75,929)	(59,565)
Net cash provided by (used in) financing activities	<u>189,456</u>	<u>279,529</u>	<u>(227,832)</u>
Effect of translation adjustment on cash	<u>421</u>	<u>—</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	(10)	85	(50,342)
Cash and cash equivalents, beginning of year	3,511	3,426	53,768
Cash and cash equivalents, end of year	<u>\$ 3,501</u>	<u>\$ 3,511</u>	<u>\$ 3,426</u>

	\$ 28,550	\$ 33,341	\$ 29,292
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The accompanying notes are an integral part of these consolidated financial statements.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL

(in thousands)

	Common Unitholders		Class B Common Unitholders		Subordinated Unitholders		General Partner	Total Partners' Capital
	Units	Amount	Units	Amount	Units	Amount	Amount	Amount
Balance at December 31, 1999	23,049	\$208,359	1,307	\$ 20,548	10,030	\$(35,621)	\$ (313)	\$192,973
Noncash compensation expense	—	—	—	—	—	—	3,089	3,089
Net income	—	50,780	—	2,878	—	22,096	1,748	77,502
Distributions	—	(42,066)	—	(2,384)	—	(13,791)	(1,324)	(59,565)
Balance at December 31, 2000	23,049	217,073	1,307	21,042	10,030	(27,316)	3,200	213,999
Issuance of units	8,867	222,032	—	—	—	—	5,517	227,549
Noncash compensation expense	—	—	—	—	—	—	5,741	5,741
Net income	—	29,436	—	1,476	—	11,327	1,940	44,179
Distributions	—	(51,271)	—	(2,549)	—	(19,558)	(2,551)	(75,929)
Other comprehensive loss	—	(8,708)	—	(435)	—	(3,344)	(255)	(12,742)
Balance at December 31, 2001	31,916	408,562	1,307	19,534	10,030	(38,891)	13,592	402,797
Issuance of units	6,325	142,013	—	—	—	—	3,033	145,046
Net income	—	45,857	—	1,736	—	13,319	4,380	65,292
Distributions	—	(70,821)	—	(2,762)	—	(21,188)	(5,070)	(99,841)
Other comprehensive loss	—	(1,183)	—	(45)	—	(343)	(113)	(1,684)
Balance at December 31, 2002	38,241	\$524,428	1,307	\$ 18,463	10,030	\$(47,103)	\$15,822	\$511,610

The accompanying notes are an integral part of these consolidated financial statements.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CONSOLIDATED
STATEMENT OF CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

(in thousands)

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2002	2001	2000
Net income	\$ 65,292	\$ 44,179	\$ 77,502
Other comprehensive loss	(1,684)	(12,742)	—
Total comprehensive income	<u>\$ 63,608</u>	<u>\$ 31,437</u>	<u>\$ 77,502</u>

Consolidated Statement of Changes in Accumulated Other Comprehensive Income (Loss)

	Net Deferred Loss on Derivative Instruments	Currency Translation Adjustments	Total
Balance at December 31, 2000	\$ —	\$ —	\$ —
Cumulative effect of accounting change	(8,337)	—	(8,337)
Reclassification adjustments for settled contracts	(2,526)	—	(2,526)
Changes in fair value of outstanding hedge portion	6,123	—	6,123
Currency translation adjustment	—	(8,002)	(8,002)
Balance at December 31, 2001	<u>\$ (4,740)</u>	<u>\$ (8,002)</u>	<u>\$(12,742)</u>
Current year activity			
Reclassification adjustments for settled contracts	797	—	797
Changes in fair value of outstanding hedge positions	(4,264)	—	(4,264)
Currency translation adjustment	—	1,783	1,783
Total current year activity	<u>(3,467)</u>	<u>1,783</u>	<u>(1,684)</u>
Balance at December 31, 2002	<u>\$ (8,207)</u>	<u>\$ (6,219)</u>	<u>\$(14,426)</u>

The accompanying notes are an integral part of these consolidated financial statements.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Organization and Basis of Presentation

Organization

Plains All American Pipeline, L.P. is a publicly traded Delaware limited partnership (the “Partnership”) engaged in interstate and intrastate marketing, transportation and terminalling of crude oil and liquefied petroleum gas (“LPG”). We were formed in September 1998 to acquire and operate the midstream crude oil business and assets of Plains Resources Inc. and its wholly-owned subsidiaries (“Plains Resources”) as a separate, publicly traded master limited partnership. We completed our initial public offering (“IPO”) in November 1998. Immediately after our IPO, Plains Resources owned 100% of our general partner interest and an overall effective ownership in the Partnership of 57% (including the 2% general partner interest and common and subordinated units owned by such entity). As discussed below, Plains Resources’ effective ownership interest in the Partnership has since been reduced substantially.

In May 2001, senior management of our general partner and a group of financial investors entered into a transaction with Plains Resources to acquire majority control of our general partner and a majority of the outstanding subordinated units. The transaction closed in June 2001, and for purposes of this report is referred to as the “General Partner Transition.” As a result of this transaction and subsequent equity offerings, Plains Resources’ overall effective ownership has been reduced to approximately 25%.

The general partner interest is now held by Plains AAP, L.P., a Delaware limited partnership. Plains All American GP LLC, a Delaware limited liability company, is Plains AAP, L.P.’s general partner. Plains All American GP LLC manages our operations and activities and employs our officers and personnel. Unless the context otherwise requires, we use the term “general partner” to refer to both Plains AAP, L.P. and Plains All American GP LLC. We use the phrase “former general partner” to refer to the subsidiary of Plains Resources that formerly held the general partner interest.

Our operations are conducted directly and indirectly through our operating subsidiaries, Plains Marketing, L.P., All American Pipeline, L.P. and Plains Marketing Canada, L.P., and are concentrated in Texas, Oklahoma, California, Louisiana and the Canadian provinces of Alberta and Saskatchewan.

Basis of Consolidation and Presentation

The accompanying financial statements and related notes present our consolidated financial position as of December 31, 2002 and 2001, and the consolidated results of our operations, cash flows, changes in partners’ capital and comprehensive income (loss) for the years ended December 31, 2002, 2001 and 2000, and changes in accumulated other comprehensive income for the years ended December 31, 2002 and 2001. All significant intercompany transactions have been eliminated. Certain reclassifications were made to prior period amounts to conform with the current period presentation.

Note 2—Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates we make include: (1) estimated useful lives of assets, which impacts depreciation and amortization, (2) allowance for doubtful accounts receivable, (3) accruals related to revenues and expenses including mark-to-market estimates pursuant to Statement of Financial Accounting

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Standards (“SFAS”) No. 133 “Accounting For Derivative Instruments and Hedging Activities”, as amended, (4) liability and contingency accruals, and (5) estimated fair value of assets and liabilities acquired and identification of associated intangible assets as well as transaction related costs. Although we believe these estimates are reasonable, actual results could differ from these estimates.

Revenue Recognition

Gathering and marketing revenues are accrued at the time title to the product sold transfers to the purchaser, which occurs upon receipt of the product by the purchaser. Terminalling and storage revenues are recognized at the time service is performed. Revenues for the transportation of crude oil are recognized either at the point of delivery or at the point of receipt pursuant to regulated and non-regulated tariffs.

Cost of Sales and Operations

Cost of sales and operations consists of the cost of crude oil, transportation and storage fees, field and pipeline operating expenses and expenses of issuing letters of credit to support crude oil purchases. Field and pipeline operating expenses consist primarily of fuel and power costs, telecommunications, labor costs for truck drivers and pipeline field personnel, maintenance, utilities, insurance and property taxes.

Cash and Cash Equivalents

Cash and cash equivalents consist of all demand deposits and funds invested in highly liquid instruments with original maturities of three months or less and at times may exceed federally insured limits. We periodically assess the financial condition of the institutions where these funds are held and believe that any possible credit risk is minimal.

Accounts Receivable

Our accounts receivable are primarily from purchasers and shippers of crude oil. The majority of our accounts receivable relate to our gathering and marketing activities that can generally be described as high volume and low margin activities, in many cases involving complex exchanges of crude oil volumes. We make a determination of the amount, if any, of the line of credit to be extended to any given customer and the form and amount of financial performance assurances we require. Such financial assurances are commonly provided in the form of standby letters of credit.

Accounts receivable included in the consolidated balance sheets are reflected net of our allowance for doubtful accounts. We routinely review our receivable balances to identify past due amounts and analyze the reasons such amounts have not been collected. In many instances, such delays involve billing delays and discrepancies or disputes as to the appropriate price, volumes or quality of crude oil delivered or exchanged. We also attempt to monitor changes in the creditworthiness of our customers as a result of developments related to each customer, the industry as a whole and the general economy. At December 31, 2002 and 2001, approximately 99% and 93%, respectively, of net accounts receivable classified as current were less than 60 days past scheduled invoice date. At December 31, 2002 and 2001, our allowance for doubtful accounts receivable classified as current totaled \$3.1 million and \$3.0 million, respectively, representing 31% and 11%, respectively, of all receivable balances greater than 60 days past the scheduled invoice date. At December 31, 2002 and 2001, approximately \$6.5 million and \$10.8 million, respectively, of net accounts receivable were classified as long-term. At December 31, 2002 and 2001, our allowance for doubtful accounts receivable classified as long-term totaled \$5.0 million representing 43% and 33%, respectively, of all long-term receivable balances. We consider

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

these reserves adequate. Following is a reconciliation of the changes in our allowance for doubtful accounts balances (in millions):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ 8.0	\$ 5.0	\$ —
Charged to expense	0.1	3.0	5.0
Balance at December 31	<u>\$ 8.1</u>	<u>\$ 8.0</u>	<u>\$ 5.0</u>

There were no amounts due from related parties at December 31, 2002. Amounts due from related parties totaled \$0.6 million at December 31, 2001, and represented amounts due under current contracts in the ordinary course of business or billings for reimbursing expenses that were collected subsequent to year end. None of the accounts receivables are related to any equity investments in the Partnership.

Inventory

Inventory consists of crude oil and LPG in pipelines, storage tanks and rail cars which is valued at the lower of cost or market, with cost determined using an average cost method. In the fourth quarter of 2001, the Partnership recorded a \$5.0 million noncash writedown of operating crude oil inventory to reflect prices at December 31, 2001. During 2001, the price of crude oil traded on the NYMEX averaged \$25.98 per barrel. At December 31, 2001, the NYMEX crude oil price was approximately 24% lower, or \$19.84 per barrel. There was no writedown of operating crude oil inventory at December 31, 2002, as the NYMEX crude oil price of \$29.45 per barrel was higher than our average cost per barrel. At December 31, 2002 and 2001, inventory consists of (in millions):

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Crude oil	\$ 53.5	\$ 132.3
LPG	28.3	56.6
	<u>\$ 81.8</u>	<u>\$ 188.9</u>

Property and Equipment and Pipeline Linefill

Property and equipment, net is stated at cost and consists of the following (in millions):

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Crude oil pipelines	\$ 821.8	\$ 470.7
Crude oil pipeline facilities	87.5	87.4
Crude oil storage and terminal facilities	82.4	63.0
Trucking equipment, injection stations and other	30.0	25.6
Office property and equipment	8.6	6.3
	<u>1,030.3</u>	<u>653.0</u>
Less accumulated depreciation	(77.5)	(48.1)
	<u>\$ 952.8</u>	<u>\$ 604.9</u>

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Depreciation expense for each of the three years in the period ended December 31, 2002, was \$30.2 million, \$21.6 million and \$15.8 million, respectively. Depreciation is computed using the straight-line method over estimated useful lives as follows:

- crude oil pipelines—30 years;
- crude oil pipeline facilities—30 years;
- crude oil storage and terminal facilities—30 to 40 years;
- trucking equipment, injection stations and other—5 to 15 years; and
- office property and equipment—5 years

In accordance with our capitalization policy, acquisitions and improvements, including related interest costs of \$0.8 million and \$0.2 million in 2002 and 2001, respectively, are capitalized; maintenance and repairs are expensed as incurred.

Pipeline linefill is recorded at lower of cost or market and consists of crude oil and LPG used to pack a pipeline such that when an incremental barrel enters a pipeline it forces a barrel out at another location as well as minimum crude oil necessary to operate our storage and terminalling facilities. At December 31, 2002, we had approximately 2.7 million barrels of crude oil and 6.4 million gallons of LPG used to maintain our minimum operating linefill requirements. Proceeds from the sale and repurchase of pipeline linefill are reflected as cash flows from operating activities in the accompanying consolidated statements of cash flows.

Impairment of Long-Lived Assets

Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written-down to estimated fair value in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS 144, an asset shall be tested for impairment when events or circumstances indicate that its carrying value may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment loss equal to the amount the carrying value exceeds the fair value of the asset is recognized. Fair value is generally determined from estimated discounted future net cash flows. We adopted SFAS 144 on January 1, 2002, and there have been no events or circumstances indicating that the carrying value of any of our assets may not be recoverable.

Other Assets

Other assets, net consist of the following (in millions):

	December 31,	
	2002	2001
Debt issue costs	\$ 21.6	\$ 15.7
Long term receivables, net	6.5	10.8
Goodwill	12.9	11.4
Intangible assets (contracts)	2.4	2.4
Investment in affiliate (See Note 4)	8.0	—
Other	5.2	5.0
	<u>56.6</u>	<u>45.3</u>
Less accumulated amortization	(8.3)	(4.4)
	<u>\$ 48.3</u>	<u>\$ 40.9</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Costs incurred in connection with the issuance of long-term debt and amendments to our credit facilities are capitalized and amortized using the straight-line method over the term of the related debt. Use of the straight-line method does not differ materially from the “effective interest” method of amortization. Goodwill is recorded as the amount of the purchase price in excess of the fair value of certain assets purchased. In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, which we adopted January 1, 2002, we test goodwill and other intangible assets periodically to determine whether an impairment has occurred. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. An impairment loss is recognized for intangibles if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. As of December 31, 2002, no impairment has occurred. Amortization of other assets, excluding goodwill on business combinations initiated after June 30, 2001, for each of the three years in the period ended December 31, 2002, was \$3.9 million, \$2.7 million and \$8.7 million, respectively.

Environmental Matters

We expense or capitalize, as appropriate, environmental expenditures. We expense expenditures that relate to an existing condition caused by past operations, which do not contribute to current or future revenue generation. We record environmental liabilities when environmental assessments and/or remedial efforts are probable and we can reasonably estimate the costs. Generally, our recording of these accruals coincides with our completion of a feasibility study or our commitment to a formal plan of action.

Income and Other Taxes

Except as noted below, no provision for U.S. federal or Canadian income taxes related to our operations is included in the accompanying consolidated financial statements, because as a partnership we are not subject to federal, state or provincial income tax and the tax effect of our activities accrues to the unitholders. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under the partnership agreement. Individual unitholders will have different investment bases depending upon the timing and price of acquisition of partnership units. Further, each unitholder's tax accounting, which is partially dependent upon the unitholder's tax position, may differ from the accounting followed in the consolidated financial statements. Accordingly, there could be significant differences between each individual unitholder's tax bases and the unitholder's share of the net assets reported in the consolidated financial statements. We do not have access to information about each individual unitholder's tax attributes, and the aggregate tax bases cannot be readily determined. Accordingly, we do not believe that in our circumstances, the aggregate difference would be meaningful information.

The Partnership's Canadian operations are conducted through an operating limited partnership, of which our wholly owned subsidiary PMC (Nova Scotia) Company is the general partner. For Canadian tax purposes, the general partner is taxed as a corporation, subject to income taxes and a capital-based tax at federal and provincial levels. For 2002 and 2001, the income tax was not material and the capital-based tax was approximately \$0.5 million (U.S.) and \$0.4 million (U.S), respectively. In addition, interest payments made by Plains Marketing Canada, L.P. on its intercompany loan from Plains Marketing, L.P. are subject to a 10% Canadian withholding tax, which for 2002 and 2001 totaled \$0.5 and \$0.3 million, respectively, and is recorded in other expense.

In addition to federal income taxes, owners of our common units may be subject to other taxes, such as state and local and Canadian federal and provincial taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property. A

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

unitholder may be required to file Canadian federal income tax returns, pay Canadian federal and provincial income taxes, file state income tax returns and pay taxes in various states.

Derivative Instruments and Hedging Activities

We utilize various derivative instruments to (i) manage our exposure to commodity price risk, (ii) engage in a controlled trading program, (iii) manage our exposure to interest rate risk and (iv) manage our exposure to currency exchange rate risk. Beginning January 1, 2001, we record all derivative instruments on the balance sheet as either assets or liabilities measured at their fair value under the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS 137 and SFAS 138 (collectively "SFAS 133"). In accordance with the transition provisions of SFAS 133, we recorded a loss of \$8.3 million in Other Comprehensive Income ("OCI"), representing the cumulative effect of an accounting change to recognize, at fair value, all cash flow derivatives. We also recorded a noncash gain of \$0.5 million in earnings as a cumulative effect adjustment. SFAS 133 requires that changes in derivative instruments fair value be recognized currently in earnings unless specific hedge accounting criteria are met, in which case, changes in fair value are deferred to OCI and reclassified into earnings when the underlying transaction affects earnings. Accordingly, changes in fair value are included in the current period for (i) derivatives characterized as fair value hedges, (ii) derivatives that do not qualify for hedge accounting and (iii) the portion of cash flow hedges that is not highly effective in offsetting changes in cash flows of hedged items.

Net Income Per Unit

Basic and diluted net income per unit is determined by dividing net income after deducting the amount allocated to the general partner interest, (including its incentive distribution in excess of its 2% interest), by the weighted average number of outstanding common units and subordinated units. Partnership income is first allocated to the general partner based on the amount of incentive distributions. The remainder is then allocated between the limited partners and general partner based on percentage ownership in the Partnership. Other comprehensive income is allocated based on the same effective percentages. Basic and diluted net income per unit for 2002, 2001 and 2000 is as follows:

	Year Ended December 31,		
	2002	2001	2000
	(in millions, except per unit data)		
Net income	\$ 65.3	\$ 44.2	\$ 77.5
Less:			
General partner incentive distributions	(3.1)	(1.1)	(0.2)
General partner 2% ownership	(1.3)	(0.9)	(1.5)
Net income attributable to limited partners	\$ 60.9	\$ 42.2	\$ 75.8
Weighted average units outstanding	45.5	37.5	34.4
Basic and diluted net income per limited partner unit	\$ 1.34	\$ 1.13	\$ 2.20

Foreign Currency Translation

Our cash flow stream relating to our Canadian operations is based on the U.S. dollar equivalent of such amounts measured in Canadian dollars. Assets and liabilities of our Canadian subsidiaries are translated to U.S.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

dollars using the applicable exchange rate as of the end of a reporting period. Revenues and expenses are translated using the average exchange rate during the reporting period.

Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 148 “Accounting for Stock-Based Compensation—Transition and Disclosure.” SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 in both annual and interim financial statements. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002, and financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. Our general partner has stock-based employee compensation plans (see Notes 12 and 13). These plans are accounted for under the fair value based method as described in SFAS 123. Therefore, we do not believe that the adoption of this statement will have a material effect on either our financial position, results of operations, cash flows or disclosure requirements.

In October 2002, the Emerging Issues Task Force (“EITF”) reached consensus on certain issues in EITF Issue No. 02-03, “Recognition and Reporting of Gains and Losses on Energy Trading Contracts under Issues No. 98-10 and 00-17.” The consensus reached included: i) rescinding EITF 98-10 and ii) the requirement that mark-to-market gains and losses on trading contracts (whether realized or unrealized and whether financially or physically settled) be shown net in the income statement using the indicators identified in Issue No. 98-10. The EITF provided guidance that, beginning on October 25, 2002, all new contracts that would have been accounted for under EITF 98-10 should no longer be marked-to-market through earnings unless such contracts fall within the scope of SFAS 133. All of the contracts that we have accounted for under EITF 98-10 fall within the scope of SFAS 133 and therefore will continue to be marked-to-market through earnings under the provisions of that rule. Therefore, the adoption of this rule did not have a material effect on either our financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the obligation is incurred rather than at the date of the exit plan. This Statement is effective for exit or disposal activities that are initiated after December 31, 2002. We have not initiated exit or disposal activities that are subject to this statement and do not believe that the adoption of SFAS 146 will have a material effect on either our financial position, results of operations or cash flows.

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” SFAS 145 rescinds, updates, clarifies and simplifies existing accounting pronouncements. Among other things, SFAS 145 rescinds SFAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Under SFAS 145, the criteria in Accounting Principles Board No. 30 will now be used to classify those gains and losses. The adoption of this and the remaining provisions of SFAS 145 did not have a material effect on our financial position or results of operations. However, any future extinguishments of debt may impact income from continuing operations (see Note 10).

In June 2001, the FASB issued SFAS No. 143 “Asset Retirement Obligations.” SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the time of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of the liability and (5) financial statement disclosures. SFAS 143 requires

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

that the cost for asset retirement should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. Effective January 1, 2003, we adopted SFAS 143, as required. Determination of the amounts to be recognized upon adoption is based upon numerous estimates and assumptions, including future retirement costs, future inflation rates and the credit-adjusted risk-free interest rate. The majority of our assets, primarily related to our pipeline operations segment, have obligations to perform removal and/or remediation activities when the asset is retired. However, the fair value of the asset retirement obligations cannot be reasonably estimated, as the settlement dates are indeterminate. We will record such asset retirement obligations in the period in which we determine the settlement dates. The cumulative effect of adopting this statement will not have a material impact on our financial position, results of operations or cash flows.

Note 3—Unauthorized Trading Losses

In November 1999, we discovered that a former employee had engaged in unauthorized trading activity, resulting in losses of approximately \$162.0 million (\$174.0 million, including estimated associated costs and legal expenses). A full investigation into the unauthorized trading activities by outside legal counsel and independent accountants and consultants determined that the vast majority of the losses occurred from March through November 1999. Approximately \$7.1 million of the unauthorized trading losses was recognized in 1998 and the remainder in 1999. In 2000, we recognized an additional \$7.0 million charge for the settlement of litigation related to the unauthorized trading losses.

Note 4—Acquisitions

The following acquisitions were accounted for using the purchase method of accounting and the purchase price was allocated in accordance with such method. In addition, we adopted SFAS No. 141, “Business Combinations” in 2001 and followed the provisions of that statement for all business combinations initiated after June 30, 2001.

Significant Acquisitions

Shell West Texas Assets

On August 1, 2002, we acquired from Shell Pipeline Company LP and Equilon Enterprises LLC interests in approximately 2,000 miles of gathering and mainline crude oil pipelines and approximately 8.9 million barrels (net to our interest) of above-ground crude oil terminalling and storage assets in West Texas (the “Shell acquisition”). The results of operations and assets from this acquisition have been included in our consolidated financial statements and in our pipeline operations segment since that date. The primary assets included in the transaction were interests in the Basin Pipeline System, the Permian Basin Gathering System and the Rancho Pipeline System. These assets complement our existing asset infrastructure in West Texas and represent a transportation link to Cushing, Oklahoma, where we are a provider of storage and terminalling services. The total purchase price of \$324.4 million consisted of (i) \$304.0 million in cash, which was borrowed under our revolving credit facility, (ii) approximately \$9.1 million related to the settlement of pre-existing accounts receivable and inventory balances and (iii) approximately \$11.3 million of estimated transaction and closing costs. The entire purchase price was allocated to property and equipment. We are in the process of evaluating certain estimates made in the purchase price allocation, including costs associated with the shutdown of the Rancho Pipeline System, thus, the allocation is subject to refinement.

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CANPET Energy Group Inc.

In July 2001, we acquired the assets of CANPET Energy Group Inc. (“CANPET”), a Calgary-based Canadian crude oil and LPG marketing company, for approximately \$42.0 million plus excess inventory at the closing date of approximately \$25.0 million. Approximately \$18.0 million of the purchase price, payable in common units, was deferred subject to various performance standards being met (see Note 8). At the time of the acquisition, CANPET’s activities consisted of gathering approximately 75,000 barrels per day of crude oil and marketing an average of approximately 26,000 barrels per day of natural gas liquids or LPG’s. The principal assets acquired include a crude oil handling facility, a 130,000-barrel tank facility, LPG facilities, existing business relationships and operating inventory. The acquired assets are part of our establishment of a Canadian operation that substantially mirrors our operations in the United States. Initial financing for the acquisition was provided through borrowings under our credit facility.

The purchase price, as adjusted post-closing, was allocated as follows (in millions):

Inventory	\$	28.1
Goodwill		11.1
Intangible assets (contracts)		1.0
Pipeline linefill		4.3
Crude oil gathering, terminalling and other assets		5.1
Total	\$	<u>49.6</u>

Murphy Oil Company Ltd. Midstream Operations

In May 2001, we closed the acquisition of substantially all of the Canadian crude oil pipeline, gathering, storage and terminalling assets of Murphy Oil Company Ltd. for approximately \$161.0 million in cash (\$158.4 million after post-closing adjustments) (the “Murphy acquisition”), including financing and transaction costs. Initial financing for the acquisition was provided through borrowings under our credit facilities. The purchase included \$6.5 million for excess inventory in the pipeline systems. The principal assets acquired include approximately 560 miles of crude oil and condensate transmission mainlines (including dual lines on which condensate is shipped for blending purposes and blended crude is shipped in the opposite direction) and associated gathering and lateral lines, approximately 1.1 million barrels of crude oil storage and terminalling capacity located primarily in Kerrobert, Saskatchewan, approximately 254,000 barrels of pipeline linefill and tank inventories, and 121 trailers used primarily for crude oil transportation. The acquired assets are part of our establishment of a Canadian operation that substantially mirrors our operations in the United States.

Murphy agreed to continue to transport production from fields previously delivering crude oil to these pipeline systems, under a long-term contract. At the time of the acquisition, the volume under the contract was approximately 11,000 barrels per day. Total volumes transported on the pipeline system in 2001 were approximately 223,000 barrels per day of light, medium and heavy crudes, as well as condensate.

The purchase price, as adjusted post-closing, was allocated as follows (in millions):

Crude oil pipeline, gathering and terminal assets	\$	148.0
Pipeline linefill		7.6
Net working capital items		2.0
Other property and equipment		0.5
Other assets, including debt issue costs		0.3
		<hr/>
Total	\$	<u>158.4</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following unaudited pro forma data is presented to show pro forma revenues, net income and basic and diluted net income per limited partner unit for the Partnership as if the Murphy, CANPET and Shell acquisitions had occurred on January 1, 2001 (in millions, except for per unit amounts):

	Year Ended December 31,	
	2002	2001
Revenue	\$ 8,410.3	\$ 7,087.6
Income before cumulative effect of accounting change	\$ 64.7	\$ 54.5
Net Income	\$ 64.7	\$ 55.0
Basic and diluted income before cumulative effect of accounting change per limited partner unit	\$ 1.32	\$ 1.39
Basic and diluted net income per limited partner unit	\$ 1.32	\$ 1.40

Other Acquisitions

Coast Energy Group and Lantern Petroleum

In March 2002, we completed the acquisition of substantially all of the domestic crude oil pipeline, gathering and marketing assets of Coast Energy Group and Lantern Petroleum, divisions of Cornerstone Propane Partners, L.P., for approximately \$8.3 million in cash net of liabilities assumed and transaction costs including \$1.3 million of goodwill. The principal assets acquired are located in West Texas and include several gathering lines, crude oil contracts and a small truck and trailer fleet. The acquired assets serve to expand our core market in West Texas and give us access to more volume in the area.

Butte Pipe Line Company

In February 2002, we acquired an approximate 22% equity interest in Butte Pipe Line Company from Murphy Ventures, a subsidiary of Murphy Oil Corporation. The total cost of the acquisition, including various transaction and related expenses, was approximately \$7.6 million. Butte Pipe Line Company owns the 373-mile Butte Pipeline System, principally a mainline system, that runs from Baker, Montana to Guernsey, Wyoming. The Butte Pipeline is connected to the Poplar Pipeline System, which in turn is connected to the Wascana Pipeline System, which is 100% wholly owned by us. We believe these pipeline systems will play an important role in moving increasing volumes of Canadian crude oil into markets in the United States.

Wapella Pipeline System

In December 2001, we acquired the Wapella Pipeline System from private investors for approximately \$12.0 million, including transaction costs. The entire purchase price was allocated to property and equipment. The system is located in southeastern Saskatchewan and southwestern Manitoba and further expands our market in Canada. In 2001, the Wapella Pipeline System delivered approximately 11,000 barrels per day of crude oil to the Enbridge Pipeline at Cromer, Manitoba. The acquisition also includes approximately 21,500 barrels of crude oil storage capacity located along the system as well as a truck terminal. Initial financing for the acquisition was provided through borrowings under our credit facility.

Note 5—Asset Dispositions

During 2002, we sold various property and equipment for proceeds totaling approximately \$1.4 million. No gain or loss was recognized as all items were sold at amounts approximating book value. In December 2001, we

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

sold excess communications equipment remaining from the sale of the All American Pipeline discussed below and recognized a gain of \$1.0 million.

In March 2000, we sold to a unit of El Paso Corporation for \$129.0 million the segment of the All American Pipeline that extends from Emidio, California to McCamey, Texas. Except for minor third-party volumes, one of our subsidiaries, Plains Marketing, L.P., was the sole shipper on this segment of the pipeline since the acquisition of the line from Goodyear in July 1998. We realized net proceeds of approximately \$124.0 million after the associated transaction costs and estimated costs to remove equipment. We used the proceeds from the sale to reduce outstanding debt. We recognized a gain of approximately \$20.1 million in connection with the sale.

We had suspended shipments of crude oil on this segment of the pipeline in November 1999. At that time, we owned approximately 5.2 million barrels of crude oil in the segment of the pipeline. We sold this crude oil from November 1999 to February 2000 for net proceeds of approximately \$100.0 million, which were used for working capital purposes. We recognized gains of approximately \$28.1 million in 2000, in connection with the sale of the linefill.

Note 6—Recent Disruptions in Industry Credit Markets

As a result of business failures, revelations of material misrepresentations and related financial restatements by several large, well-known companies in various industries during 2001 and 2002, there have been significant disruptions and extreme volatility in the financial markets and credit markets. Because of the credit intensive nature of the energy industry and troubling disclosures by several large, diversified energy companies, the energy industry has been especially impacted by these developments, with the rating agencies downgrading a number of large, energy-related companies. Accordingly, in this environment we are exposed to an increased level of direct and indirect counterparty credit and performance risk.

The majority of our credit extensions and therefore our accounts receivable relate to our gathering and marketing activities that can generally be described as high volume and low margin activities, in many cases involving complex exchanges of crude oil volumes. In transacting business with our counterparties, we must determine the amount, if any, of open credit lines to extend to our counterparties and the form and amount of financial performance assurances we may require. We manage our exposure to credit risk through credit analysis, credit approvals, credit limits and monitoring procedures. As a result of these developments, during 2002 we modified our ongoing credit arrangements with certain counterparties, reducing or eliminating the amount of open credit we extend and requiring prepayments or standby letters of credit for business activities that exceed these revised credit limits.

The vast majority of our accounts receivable settle monthly and any collection delays generally involve discrepancies or disputes as to the appropriate price, volume or quality of crude oil delivered or exchanged and associated billing delays. At December 31, 2002, approximately 99% of our net accounts receivables included in current assets are less than 60 days past scheduled invoice date (see Note 2). The majority of the remaining 1% and the balance of accounts receivable classified as long-term relate to monthly periods leading up to and immediately following the disclosure of unauthorized trading losses that we experienced in late 1999. Such balances are subject to ongoing reconciliations primarily to resolve discrepancies associated with pricing, volumes, quality or crude oil exchange imbalances. Following the unauthorized trading loss disclosure, a significant number of our suppliers and trading partners temporarily reduced or eliminated our open credit and demanded payments or withheld payments due us before disputed amounts or discrepancies were reconciled in accordance with customary industry practices. Because these matters also arose in the midst of various software systems conversions and acquisition integration activities, our effort to resolve outstanding claims and discrepancies has included reprocessing and integrating historical information on numerous software platforms.

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During 2002, significant, concerted effort was directed to resolving these matters in an ongoing effort to bring substantially all receivable balances to within sixty days of scheduled invoice date. As a result of this effort, the aggregate balance of all accounts receivable balances greater than sixty days past scheduled invoice date at December 31, 2001 was reduced by approximately 64% and the balance of our accounts receivable included in current assets that were less than 60 days past scheduled invoice date improved to 99% at December 31, 2002 from 93% at December 31, 2001. Based on the work performed to date, we believe net receivable balances greater than sixty days past scheduled invoice date are collectible or subject to offsets and consider our reserves adequate. However, since certain of these obligations are not secured by letters of credit, in the event our counterparties experience an unanticipated deterioration in their credit-worthiness, any addition to existing reserves or write-offs in excess of such reserves would result in a noncash charge to earnings. We do not believe any such charge would have a material effect on our cash flow or liquidity.

Note 7—Debt

Short-term debt and current maturities of long-term debt consist of the following (in millions):

December 31,	
2002	2001

Senior secured letter of credit and borrowing facility bearing interest at a rate of 3.4% at December 31, 2002, and 3.8% at December 31, 2001	\$97.7	\$100.0
Other	1.5	1.5
	<u>99.2</u>	<u>101.5</u>
Current portion of long-term debt ⁽¹⁾	—	3.0
	<u>\$99.2</u>	<u>\$104.5</u>

(1) At December 31, 2002, we have classified \$9 million of term loan payments due in 2003 as long term due to our intent and ability to refinance those maturities using the revolving facility.

Long-term debt consists of the following (in millions):

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
7.75% senior notes due October 2012, net of unamortized discount of \$0.4	\$199.6	\$ —
Senior secured domestic revolving credit facility, bearing interest at a rate of 4.8% at December 31, 2002, and 4.5% at December 31, 2001	10.4	27.5
Senior secured term B loan, bearing interest at a rate of 3.9% at December 31, 2002, and 4.5% at December 31, 2001 ⁽¹⁾	198.0	200.0
Senior secured term loan, bearing interest at a rate of 3.9% at December 31, 2002, and 4.4% at December 31, 2001 ⁽¹⁾	99.0	100.0
Senior secured Canadian revolving credit facility, bearing interest at a rate of 5.0% at December 31, 2002 and 4.4% at December 31, 2001	2.7	27.2
	<u>509.7</u>	<u>354.7</u>
Less current maturities ⁽¹⁾	—	(3.0)
Total long-term debt	<u>\$509.7</u>	<u>\$351.7</u>

(1) At December 31, 2002, we have classified \$9 million of term loan payments due in 2003 as long term due to our intent and ability to refinance those maturities using the revolving facility.

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During September 2002, we completed the sale of \$200 million of 7.75% senior notes due in October 2012. The notes were issued by Plains All American Pipeline, L.P. and a 100% owned consolidated finance subsidiary (neither of which have independent assets or operations) at a discount of \$0.4 million, resulting in an effective interest rate of 7.78%. Interest payments are due on April 15 and October 15 of each year. The notes are fully and unconditionally guaranteed, jointly and severally, by all of our existing 100% owned subsidiaries, except for subsidiaries which are minor.

During 2002, we amended our credit facilities to enable us to consummate the Shell acquisition, to remove a condition requiring us to obtain lender approval before making any acquisition greater than \$50.0 million and to accommodate the increased activity level associated with the expanded asset base, while preserving our ability to pursue additional acquisitions.

As amended during 2002 and giving effect to the third quarter capital raising activities, our credit facilities consist of a \$350.0 million senior secured letter of credit and hedged inventory facility (with current lender commitments totaling \$200.0 million), and a \$747.0 million senior secured revolving credit and term loan facility, each of which is secured by substantially all of our assets. The terms of our credit facilities enable us to expand the commitments under the letter of credit and hedged inventory facility from \$200.0 million to \$350.0 million without additional approval from existing lenders. The revolving credit and term loan facility consists of a \$420.0 million domestic revolving facility (with a \$10.0 million letter of credit sublimit), a \$30.0 million Canadian revolving facility (with a \$5.0 million letter of credit sublimit), a \$99.0 million term loan, and a \$198.0 million term B loan.

As is customary in our industry, and in connection with our crude oil marketing, we provide certain purchasers and transporters with irrevocable standby letters of credit to secure our obligation for the purchase of crude oil. Our liabilities with respect to these purchase obligations are recorded in accounts payable on our balance sheet in the month the crude oil is purchased. Generally, these letters of credit are issued for up to seventy-day periods and are terminated upon completion of each transaction. At December 31, 2002 and 2001, we had outstanding letters of credit of approximately \$52.5 million and \$30.1 million, respectively. These letters of credit are secured by our crude oil inventory and accounts receivable.

The instruments that comprise our credit facilities bear interest based on floating rates. The weighted average interest rate during the years ended December 31, 2002 and December 31, 2001, respectively, for each of the instruments are as follows: (i) 3.4% and 5.3% for the \$350.0 million senior secured letter of credit and hedged inventory facility, (ii) 4.4 % and 7.1 % for the \$420.0 million domestic revolving facility, (iii) 4.5% and 5.5% for the \$30.0 million Canadian revolving facility, (iv) 4.1% and 6.7% for the \$99.0 million term loan and (v) 4.5% and 5.0% for the \$198.0 million term loan.

The facilities have final maturities as follows:

- as to the \$350.0 million senior secured letter of credit and hedged inventory facility and the aggregate \$450.0 million domestic and Canadian revolver portions, in April 2005;
- as to the \$99.0 million term loan, in May 2006; and
- as to the \$198.0 million term B loan, in September 2007.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Our credit facilities and the indenture governing the 7.75% senior notes contain cross default provisions. Our credit facilities prohibit distributions on, or purchases or redemptions of, units if any default or event of default is continuing. In addition, the agreements contain various covenants limiting our ability to, among other things:

- incur indebtedness;
- grant liens;
- sell assets;
- make investments;
- engage in transactions with affiliates;
- enter into prohibited contracts; and
- enter into a merger or consolidation.

Our credit facilities treat a change of control as an event of default and also require us to maintain:

- a current ratio (as defined) of at least 1.0 to 1.0;
- a debt coverage ratio which will not be greater than: 5.25 to 1.0 on all outstanding debt and 4.0 to 1.0 on secured debt;

- an interest coverage ratio that is not less than 2.75 to 1.0; and
- a debt to capital ratio of not greater than 0.7 to 1.0 through March 30, 2003, and 0.65 to 1.0 at any time thereafter.

For covenant compliance purposes, letters of credit and borrowings under the letter of credit and hedged inventory facility are excluded when calculating the debt coverage and debt to capital ratios. Additionally, under the covenants, unborrowed availability under the \$450 million domestic and Canadian revolving credit facilities is added to working capital to calculate the current ratio for compliance purposes. At December 31, 2002, unborrowed availability was approximately \$436.9 for purposes of calculating the current ratio.

A default under our credit facilities would permit the lenders to accelerate the maturity of the outstanding debt and to foreclose on the assets securing the credit facilities. As long as we are in compliance with our credit agreements, they do not restrict our ability to make distributions of “available cash” as defined in our partnership agreement. We are in compliance with the covenants contained in our credit facilities and 7.75% senior notes credit agreements.

The amended facility permits us to issue up to an aggregate of \$400.0 million of senior unsecured debt that has a maturity date extending beyond the maturity date of the existing credit facility, and provides a mechanism to reduce the amount of the domestic revolving credit facility. The foregoing description of the credit facility incorporates the reduction associated with the \$200 million senior note offering completed in September 2002. Depending on the amount of additional senior indebtedness incurred, the domestic revolving credit facility will be reduced by an amount equating to 40% to 63% of any incremental indebtedness up to the aggregate \$400 million limitation.

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Maturities

The average life of our long-term debt at December 31, 2002, was approximately 6.3 years and the aggregate maturities for the next five years are as follows (in millions):

Calendar Year	Payment
2003	\$ 9.0
2004	10.0
2005	23.1
2006	78.0
2007	190.0
Thereafter	200.0
Total ⁽¹⁾	510.1

(1) Includes unamortized discount on 7.75% senior notes of \$0.4 million.

Note 8—Partners’ Capital and Distributions

Partners’ capital consists of (1) 39,548,129 common units, including 1,307,190 Class B common units, representing a 78.2% effective aggregate ownership interest in the Partnership and its subsidiaries, (after giving affect to the general partner interest), (2) 10,029,619 subordinated units representing a 19.8% effective aggregate ownership interest in the Partnership and its subsidiaries (after giving affect to the general partner interest) and (3) a 2% general partner interest.

In August 2002, we completed a public offering of 6,325,000 common units for \$23.50 per unit. The offering resulted in cash proceeds of approximately \$148.6 million from the sale of the units and approximately \$3.0 million from our general partner's proportionate capital contribution. Total costs associated with the offering, including underwriter fees and other expenses, were approximately \$6.6 million. Net proceeds of approximately \$145.0 million were used to reduce outstanding borrowings under the domestic revolving credit facility.

In May 2001, we completed a public offering of 3,966,700 common units. Total net cash proceeds from the offering, including our former general partner's proportionate contribution, were approximately \$100.7 million. In addition, in October 2001, we completed a public offering of 4,900,000 common units. Net cash proceeds from the offering, including our general partner's proportionate contribution, were approximately \$126.0 million. The net proceeds were used to repay borrowings under our revolving credit facility, a portion of which was used to finance our Canadian acquisitions.

We will distribute 100% of our available cash within 45 days after the end of each quarter to unitholders of record and to our general partner. Available cash is generally defined as all of our cash and cash equivalents on hand at the end of each quarter less reserves established by our general partner for future requirements. Distributions of available cash to holders of subordinated units are subject to the prior rights of holders of common units to receive the minimum quarterly distribution ("MQD") for each quarter during the subordination period and to receive any arrearages in the distribution of the MQD on the common units for the prior quarters during the subordination period. There were no arrearages on common units at December 31, 2002. The MQD is \$0.45 per unit (\$1.80 per unit on an annual basis). Common units will not accrue arrearages with respect to distributions for any quarter after the subordination period and subordinated units will not accrue any arrearages with respect to distributions for any quarter.

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The subordination period (as defined in the partnership agreement) will end if certain financial tests are met for three consecutive four-quarter periods (the "testing period"), but not sooner than December 31, 2003. During the first quarter after the end of the subordination period, all of the subordinated units will convert into common units, and will participate pro rata with all other common units in future distributions. Early conversion of a portion of the subordinated units may occur if the testing period is satisfied before December 31, 2003. We are now in the testing period and, if we continue to meet the requirements, 25% of the subordinated units will convert in the fourth quarter of 2003 and the remainder will convert in the first quarter of 2004.

In connection with the CANPET acquisition in July 2001, approximately \$18 million of the purchase price, payable in common units, was deferred subject to various performance standards being met. The deferred amount will be paid in April 2004 if the standards are met. The number of common units issued in satisfaction of the deferred payment will depend upon the market value of common units at the time of payment. In addition, an amount will be paid equivalent to the distributions that would have been paid on the common units had they been outstanding since the acquisition was consummated. We may, at our option, satisfy the deferred payment in cash rather than the issuance of units.

Our general partner is entitled to receive incentive distributions if the amount we distribute with respect to any quarter exceeds levels specified in our partnership agreement. Under the quarterly incentive distribution provisions, generally the general partner is entitled, without duplication, to 15% of amounts we distribute in excess of \$0.450 per unit, 25% of the amounts we distribute in excess of \$0.495 per unit and 50% of amounts we distribute in excess of \$0.675 per unit. Cash distributions on our outstanding common units, Class B common units and subordinated units and the portion of the distributions representing an excess over the MQD were as follows:

Year					
2002		2001		2000	
Distribution	Excess	Distribution	Excess	Distribution	Excess

		<u>over MQD</u>		<u>over MQD</u>		<u>over MQD</u>
First Quarter	\$ 0.5250	\$0.0750	\$ 0.4750	\$ 0.0250	\$ 0.4500 ⁽¹⁾	\$ —
Second Quarter	\$ 0.5375	\$0.0875	\$ 0.5000	\$ 0.0500	\$ 0.4625	\$ 0.0125
Third Quarter	\$ 0.5375	\$0.0875	\$ 0.5125	\$ 0.0625	\$ 0.4625	\$ 0.0125
Fourth Quarter	\$ 0.5375	\$0.0875	\$ 0.5125	\$ 0.0625	\$ 0.4625	\$ 0.0125

(1) Reflects distributions to common and Class B common unitholders only. No distribution was declared or paid on the subordinated units owned by our former general partner in this period.

The Class B common units are initially pari passu with common units with respect to distributions, and are convertible into common units upon approval of a majority of the common unitholders. The Class B unitholders may request that we call a meeting of common unitholders to consider approval of the conversion of Class B units into common units. If the approval of a conversion by the common unitholders is not obtained within 120 days of a request, each Class B common unitholder will be entitled to receive distributions, on a per unit basis, equal to 110% of the amount of distributions paid on a common unit, with such distribution right increasing to 115% if such approval is not secured within 90 days after the end of the 120-day period. Except for the vote to approve the conversion, Class B common units have the same voting rights as the common units.

During 2002, we paid distributions of approximately \$99.8 million (\$2.11 on a per unit basis), with approximately \$73.6 million paid to our common unitholders, \$21.1 million paid to our subordinated unitholders and \$5.1 million paid to our general partner for its general partner (\$2.0 million) and incentive distribution interests (\$3.1 million). The distribution was in excess of the minimum quarterly distribution specified in the partnership agreement.

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On January 24, 2003, we declared a cash distribution of \$0.5375 per unit on our outstanding common units, Class B common units and subordinated units. The distribution was paid on February 14, 2003, to unitholders of record on February 4, 2003, for the period October 1, 2002, through December 31, 2002. The total distribution paid was approximately \$28.2 million, with approximately \$21.2 million paid to our common unitholders, \$5.4 million paid to our subordinated unitholders and \$1.6 million paid to our general partner for its general partner (\$0.6 million) and incentive distribution interests (\$1.0 million). The distribution was in excess of the minimum quarterly distribution specified in the partnership agreement.

Note 9—Derivatives and Financial Instruments

We utilize various derivative instruments to (i) manage our exposure to commodity price risk, (ii) engage in a controlled trading program, (iii) manage our exposure to interest rate risk and (iv) manage our exposure to currency exchange rate risk.

Our risk management policies and procedures are designed to monitor interest rates, currency exchange rates, NYMEX and over-the-counter positions, and physical volumes, grades, locations and delivery schedules to ensure that our hedging activities address our market risks. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking the hedge. We calculate hedge effectiveness on a quarterly basis. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Commodity Price Risk Hedging

We hedge our exposure to price fluctuations with respect to crude oil and LPG in storage, and expected purchases, sales and transportation of these commodities. The derivative instruments utilized consist primarily of futures and option contracts traded on the New York Mercantile Exchange and over-the-counter transactions, including crude oil swap and option contracts entered into with financial institutions and other energy companies (see Note 6 for a discussion of the mitigation of credit risk). In accordance with SFAS 133, these derivative instruments are recorded in the balance sheet as assets or liabilities at their fair values. The majority of our commodity price risk derivative instruments qualify for hedge accounting as cash flow hedges. Therefore, the corresponding changes in fair value for the effective portion of the hedge are deferred to OCI and recognized in revenues or cost of sales and operations in the periods during which the underlying physical transactions occur. At December 31, 2002 there was income of \$1.2 million deferred in OCI related to our commodity price risk activities. Insignificant amounts related to these activities were deferred to OCI at December 31, 2001. At December 31, 2002, all of our future positions mature by December, 2004. For the years ended December 31, 2002 and 2001, income of \$0.3 million and \$0.4 million (excluding the impact of the adoption of SFAS 133), respectively, was included in earnings due to changes in the fair value of derivatives that do not qualify for hedge accounting and the portion of cash flow hedges that are not highly effective. We have determined that our physical purchase and sale agreements qualify for the normal purchase and sale exclusion and thus are not subject to SFAS 133.

Controlled Trading Program

As a result of production and delivery variances associated with our lease purchase activities, from time to time we experience net unbalanced positions. In connection with managing these positions and maintaining a

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constant presence in the marketplace, both necessary for our core business, we engage in a controlled trading program for up to 500,000 barrels. These activities are monitored independently by our risk management function and must take place within predefined limits and authorizations. In accordance with SFAS 133, these derivative instruments are recorded in the balance sheet as assets or liabilities at their fair value, with the changes in fair value recorded net in revenues. Although there were no open positions under this program at December 31, 2002 and 2001, the realized earnings impact related to these derivatives for the years ended December 31, 2002 and 2001, was income of \$0.1 million and a loss of \$0.9 million, respectively.

Interest Rate Risk Hedging

We also utilize various products, such as interest rate swaps, collars and treasury locks to hedge interest obligations on specific debt issuances, including anticipated debt issuances. All of these instruments are placed with large creditworthy financial institutions.

The instruments outstanding at December 31, 2002, consist of interest rate swaps and a treasury lock with an aggregate notional principal amount of \$150 million. The interest rate swaps are based on LIBOR rates and provide for a LIBOR rate of 5.1% for a \$50.0 million notional principal amount expiring October 2006, and a LIBOR rate of 4.3% for a \$50.0 million notional principal amount expiring March 2004. Interest on the underlying debt being hedged is based on LIBOR plus a margin. During 2002, we entered into a treasury lock in anticipation of the issuance of our 7.75% senior notes due October 2012 and potential subsequent add-on thereto. A treasury lock is a financial derivative instrument that enables the company to lock in the U.S. Treasury Note rate. The treasury lock has notional principal amount of \$50.0 million and an effective interest rate of 4.60% and matures in January 2003. In January, 2003, the treasury lock maturity was extended to March, 2003 with an effective interest rate of 4.68%.

The instruments outstanding at December 31, 2001, consisted of interest rate swaps and collars with an aggregate notional principal amount of \$275 million and were based on LIBOR rates. The collar provides for a floor of 6.1% and a ceiling of 8.0% with an expiration date of August 2002 for \$125.0 million notional principal amount. The fixed rate interest rate swaps provide for a rate of 4.3% for \$50.0 million notional principal amount expiring March 2004, and a rate of 3.6% for \$100.0 million notional principal amount expiring September 2003.

The instruments outstanding at December 31, 2002 and 2001 qualify for hedge accounting as cash flow hedges in accordance with SFAS 133. The effective portion of changes in fair values of these hedges is recorded in OCI until the related hedged item impacts earnings. At December 31, 2002, there was a \$9.6 million loss, deferred in OCI related to our interest rate risk activities. Insignificant amounts related to these activities were deferred to OCI at December 31, 2001. During 2002 and 2001, there were no amounts recognized in earnings related to hedge ineffectiveness.

Based on December 31, 2002, debt balances, floating rate indexes at the end of January 2003, our credit spread under our credit facilities and the combination of our fixed rate debt and current interest rate hedges, our average interest rate was approximately 6.1%, excluding non-use and facilities fees, which will vary based on usage and outstanding balance. We have locked-in interest rates (excluding the credit spread under the credit facilities) for approximately 60% of our total debt for 2003, 50% for the next four years and 40% for the next ten years.

Currency Exchange Rate Risk Hedging

Since substantially all of our Canadian business is conducted in Canadian dollars (CAD), we use certain financial instruments to minimize the risks of unfavorable changes in exchange rates. These instruments include forward exchange contracts, forward extra option contracts and cross currency swaps. Additionally, at

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December 31, 2002 and 2001, \$2.7 million and \$25.4 million, respectively of our long-term debt was denominated in Canadian dollars (\$4.3 million and \$40.5 million CAD based on a Canadian-U.S. dollar exchange rate of 1.58 and 1.59, respectively). All of these financial instruments are placed with large creditworthy financial institutions.

At December 31, 2002 and 2001, we had forward exchange contracts and forward extra option contracts that allow us to exchange \$3.0 million Canadian for at least \$1.9 million U.S. quarterly during 2002 and 2003 (based on a Canadian-U.S. dollar exchange rate of 1.54 and 1.55, respectively). At December 31, 2002 and 2001, we also had cross currency swap contracts for an aggregate notional principal amount of \$24.8 million and \$25.0 million, respectively, effectively converting this amount of our senior secured term loan (25% of the total) from U.S. dollars to \$38.3 million and \$38.7 million of Canadian dollar debt (based on a Canadian-U.S. dollar exchange rate of 1.55). The terms of this contract mirror the term loan, matching the amortization schedule and final maturity in May 2006.

The forward exchange contracts and forward extra option contracts qualify for hedge accounting as cash flow hedges and the cross currency swaps qualify for hedge accounting as fair value hedges, both in accordance with SFAS 133. Such derivative activity resulted in income of \$0.2 million deferred in OCI related to our currency exchange rate cash flow hedges at December 31, 2002. No amounts related to these activities were deferred to OCI at December 31, 2001. The earnings impact related to our currency exchange rate fair value hedges was nominal for the year ended December 31, 2002 and a loss of \$0.2 million for the year ended December 31, 2001.

Summary of Financial Impact

The following is a summary of the financial impact of the derivative instruments and hedging activities discussed above. At December 31, 2002, the balance sheet includes assets of \$15.5 million (\$12.9 million current), liabilities of \$22.8 million (\$16.0 million current) and related unrealized losses deferred to OCI of \$8.2 million. In addition, revenues for the year ended December 31, 2002 include a noncash gain of \$0.3 million (\$1.0 million noncash gain net of the reversal of the prior period fair value adjustment related to contracts that settled during the current year). Our hedge-related assets and liabilities are included in other current and non-current assets and liabilities in the consolidated balance sheet.

As of December 31, 2002, the total amount of deferred net losses recorded in OCI are expected to be reclassified to future earnings, contemporaneously with the related physical purchase or delivery of the underlying commodity or payments of interest. During the periods ended December 31, 2002 and 2001, no amounts were reclassified to earnings from OCI in connection with forecasted transactions that were no longer considered probable of occurring. Based on the amounts deferred to OCI at December 31, 2002, a loss of \$1.9 million will be reclassified to earnings in the next twelve months and the remainder by December 2005. Since these amounts are based on market prices at the current period end, actual amounts to be reclassified will differ and could vary materially as a result of changes in market conditions.

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Fair Value of Financial Instruments

The carrying amounts and fair values of our financial instruments are as follows (in millions):

	December 31,			
	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
NYMEX futures	\$ 0.6	\$ 0.6	\$ (1.1)	\$ (1.1)
Options and swaps	\$ (0.6)	\$ (0.6)	\$ —	\$ —
Forward exchange contracts	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2
Forward extra option contracts	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3
Cross currency swaps	\$ 0.3	\$ 0.3	\$ 0.5	\$ 0.5
Treasury lock	\$ (3.3)	\$ (3.3)	\$ —	\$ —
Interest rate collars	\$ —	\$ —	\$ (3.8)	\$ (3.8)
Interest rate swaps	\$ (6.3)	\$ (6.3)	\$ (1.5)	\$ (1.5)
Short and long-term debt	\$ 609.0	\$ 618.4	\$ 456.2	\$ 456.2

As of December 31, 2002 and 2001, the carrying amounts of items comprising current assets and current liabilities approximate fair value due to the short-term maturities of these instruments. The carrying amounts of the variable rate instruments in our credit facilities approximate fair value primarily because the interest rates fluctuate with prevailing market rates, while the interest rate on the 7.75% senior notes is fixed and the fair value is based on quoted market prices.

The carrying amount of our derivative financial instruments approximate fair value as these instruments are recorded on the balance sheet at their fair value under SFAS 133. Our derivative financial instruments include cross currency swaps, forward exchange and extra option contracts, interest rate swap collar and treasury lock agreements for which fair values are based on current termination values. We also have over-the-counter option and swap contracts for which fair values are estimated based on quoted prices from various sources such as independent reporting services, industry publications and brokers. For positions where independent quotations are not available, an estimate is provided, or the prevailing market price at which the positions could be liquidated is used. In addition, we have NYMEX futures and options for which the fair values are based on quoted market prices.

Note 10—Early Extinguishment of Debt

During 2000, we recognized extraordinary losses, consisting primarily of unamortized debt issue costs, totaling \$15.1 million related to the permanent reduction of the All American Pipeline, L.P. term loan facility and the refinancing of our credit facilities. In addition, interest and other income for the year ended December 31, 2000, included \$9.7 million of previously deferred gains from terminated interest rate swaps as a result of debt extinguishments related to the unauthorized trading losses (see Note 3).

Note 11—Major Customers and Concentration of Credit Risk

Marathon Ashland Petroleum accounted for 10%, 11% and 12% of our revenues for each of the three years in the period ended December 31, 2002. No other customers accounted for 10% or more of our revenues during any of the three years. The majority of the revenues from Marathon Ashland Petroleum pertain to our gathering, marketing, terminalling and storage operations. We believe that the loss of this customer would have only a short-term impact on our operating results. There can be no assurance, however, that we would be able to identify and access a replacement market at comparable margins.

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Financial instruments that potentially subject us to concentrations of credit risk consist principally of trade receivables. Our accounts receivable are primarily from purchasers and shippers of crude oil. This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic, industry or other conditions. We review credit exposure and financial information of our counterparties and generally require letters of credit for receivables from customers that are not considered credit worthy, unless the credit risk can otherwise be reduced (see Note 6).

Note 12—Related Party Transactions

Reimbursement of Expenses of Our General Partner and Its Affiliates

We do not directly employ any persons to manage or operate our business. These functions are provided by employees of our general partner (or, in the case of our Canadian operations, PMC (Nova Scotia) Company). Our general partner does not receive a management fee or other compensation in connection with its management of us. We reimburse our general partner for all direct and indirect costs of services provided, including the costs of employee, officer and director compensation and benefits allocable to us, and all other expenses necessary or appropriate to the conduct of our business, and allocable to us. Our agreement provides that our general partner will determine the expenses allocable to us in any reasonable manner determined by our general partner in its sole discretion. Historically, an allocation was made for overhead associated with officers and employees who divided time between us and Plains Resources. As a result of the General Partner Transition, all of the employees and officers of the general partner devote 100% of their efforts to our business and there are no allocated expenses. Total costs reimbursed by us to our general partner in 2002 and 2001 were approximately \$70.8 million and \$31.3 million, respectively. Total costs reimbursed by us to our former general partner and Plains Resources were approximately \$31.2 million and \$63.8 million for the years ended December 31, 2001 and 2000, respectively, and include for periods prior to 2001: (1) allocated personnel costs (such as salaries and employee benefits) of the personnel providing such services, (2) rent on office space allocated to our general partner in Plains Resources' offices in Houston, Texas, (3) property and casualty insurance premiums and (4) out-of-pocket expenses related to the provision of such services.

Crude Oil Marketing Agreement

We are the exclusive marketer/purchaser for all of Plains Resources' and its subsidiaries' equity crude oil production. The marketing agreement with Plains Resources provides that we will purchase for resale at market prices all of Plains Resources' crude oil production for which we charge a fee of \$0.20 per barrel. This fee is subject to adjustment every three years based on then-existing market conditions. For the years ended December 31, 2002, 2001 and 2000, we paid Plains Resources approximately \$247.7 million, \$223.2 million and \$244.9 million, respectively, for the purchase of crude oil under the agreement, including the royalty share of production, and recognized margins of approximately \$1.8 million, \$1.8 million and \$1.7 million from the marketing fee for the same periods, respectively. In our opinion, these purchases were made at prevailing market prices. In November 2001, the marketing agreement automatically extended for an additional three-year period. On December 18, 2002, Plains Resources completed a spin-off of one of its subsidiaries, Plains Exploration and Production ("PXP"), to its shareholders. PXP owns crude oil properties and is a successor participant to this marketing agreement.

Separation Agreement

A separation agreement was entered into in connection with the General Partner Transition pursuant to which (i) Plains Resources has indemnified us for (a) claims relating to securities laws or regulations in

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

connection with the upstream or midstream businesses, based on alleged acts or omissions occurring on or prior to June 8, 2001 or (b) claims related to the upstream business, whenever arising, and (ii) we have indemnified Plains Resources for claims related to the midstream business, whenever arising. Plains Resources also has agreed to indemnify and maintain liability insurance for the individuals who were, on or before June 8, 2001, directors or officers of Plains Resources or our former general partner.

Financing

In May 2000, we repaid to our former general partner \$114.0 million of subordinated debt. Interest expense related to the notes was \$3.3 million for the year ended December 31, 2000.

Due to Related Parties

The balance of amounts due to related parties at December 31, 2002 and 2001 was \$23.3 million and \$13.7 million, respectively, and was related to crude oil purchased by us but not yet paid as of December 31 of each year.

Transaction Grant Agreements

In connection with our initial public offering, our former general partner, at no cost to us, agreed to transfer, subject to vesting, approximately 400,000 of its affiliates' common units (including distribution equivalent rights attributable to such units) to certain key officers and employees of our former general partner and its affiliates. Under these grants, the common units vested based on attaining a targeted operating surplus for a given year. Of the 400,000 units subject to the transaction grant agreements, 69,444 units vested in 2000 for 1999's operating results and 133,336 units vested in 2001 for 2000's operating results. The remainder (197,220 units) vested in connection with the consummation of the General Partner Transition. Distribution equivalent rights were paid in cash at the time of the vesting of the associated common units. The values of the units and associated distribution equivalent rights that vested under the Transaction Grant Agreements for all grantees in 2001 and 2000 were \$5.7 million and \$3.1 million, respectively. Although we recorded noncash compensation expenses with respect to these vestings, the compensation expense incurred in connection with these grants was funded by our former general partner, without reimbursement by us.

Performance Option Plan

In connection with the General Partner Transition, the owners of the general partner (other than PAA Management, L.P.) contributed an aggregate of 450,000 subordinated units to the general partner to provide a pool of units available for the grant of options to management and key employees. In that regard, the general partner adopted the Plains All American 2001 Performance Option Plan, pursuant to which options to purchase approximately 375,000 units have been granted. Such options vest in 25% increments based upon achieving quarterly distribution levels on our units of \$0.525, \$0.575, \$0.625 and \$0.675 (\$2.10, \$2.30, \$2.50 and \$2.70, annualized). The first such level was reached, and 25% of the options vested, in 2002. The options will vest immediately upon a change in control (as defined in the grant agreements). The original purchase price under the options is \$22 per subordinated unit, declining over time in an amount equal to 80% of each quarterly distribution per unit. As of February 21, 2003, the purchase price was \$19.07 per unit. The terms of future grants may differ from the existing grants. Because the subordinated units underlying the plan were contributed to the general partner, we will have no obligation to reimburse the general partner for the cost of the units upon exercise of the options.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Option Replacement

In connection with the General Partner Transition, certain members of the management team that had been employed by Plains Resources were transferred to the general partner. At that time, such individuals held in-the-money but unvested stock options in Plains Resources, which were subject to forfeiture because of the transfer of employment. Plains Resources, through its affiliates, agreed to substitute a contingent grant of subordinated units with a value equal to the spread on the unvested options, with distribution equivalent rights from the date of grant. The subordinated units vest on the same schedule as the stock options would have vested. The general partner administers the vesting and delivery of the units under the grants. Because the units necessary to satisfy the delivery requirements under the grants are provided by Plains Resources, we have no obligation to reimburse the general partner for the cost of such units.

Benefit Plan

A subsidiary of Plains Resources was, until June 8, 2001, our general partner. On that date, such entity transferred the general partner interest to Plains AAP, L.P. Effective July 1, 2001, Plains All American GP LLC (Plains AAP, L.P.'s general partner), maintains a 401(k) defined contribution plan whereby it matches 100% of an

employee's contribution (subject to certain limitations in the plan). For the period July 1 through December 31, 2001, defined contribution plan expense was approximately \$1.1 million. For the year ended December 31, 2002, defined contribution plan expense was approximately \$2.1 million.

Prior to July 1, 2001, Plains Resources maintained a 401(k) defined contribution plan whereby it matched 100% of an employee's contribution (subject to certain limitations in the plan), with matching contributions being made 50% in cash and 50% in common stock of Plains Resources (the number of shares for the stock match being based on the market value of the common stock at the time the shares were granted). For the period January 1 through June 30, 2001, defined contribution plan expense was \$1.0 million. For the year ended December 31, 2000, defined contribution plan expense was approximately \$1.0 million.

Note 13—Long-Term Incentive Plans

Our general partner has adopted the Plains All American GP LLC 1998 Long-Term Incentive Plan for employees and directors of our general partner and its affiliates who perform services for us. The Long-Term Incentive Plan consists of two components, a restricted unit plan and a unit option plan. The Long-Term Incentive Plan currently permits the grant of restricted units and unit options covering an aggregate of 1,425,000 common units. The plan is administered by the Compensation Committee of our general partner's board of directors. Our general partner's board of directors in its discretion may terminate the Long-Term Incentive Plan at any time with respect to any common units for which a grant has not yet been made. Our general partner's board of directors also has the right to alter or amend the Long-Term Incentive Plan or any part of the plan from time to time, including increasing the number of common units with respect to which awards may be granted; provided, however, that no change in any outstanding grant may be made that would materially impair the rights of the participant without the consent of such participant.

Restricted Unit Plan. A restricted unit is a "phantom" unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit. As of December 31, 2002, aggregate outstanding grants of approximately 1,047,000 restricted units have been made to employees, officers and directors of our general partner. The Compensation Committee may, in the future, make additional grants under the plan to employees and directors containing such terms as the Compensation Committee shall determine. Restricted units granted to employees during the subordination period, although additional vesting criteria may sometimes apply, will vest only after, and in the same proportions as, the conversion of the subordinated units to common units. Grants

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

made to non-employee directors of our general partner are eligible to vest prior to termination of the subordination period.

If a grantee terminates employment or membership on the board for any reason, the grantee's restricted units will be automatically forfeited unless, and to the extent, the Compensation Committee provides otherwise. Common units to be delivered upon the vesting of rights may be common units acquired by our general partner in the open market or in private transactions, common units already owned by our general partner, or any combination of the foregoing. Our general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units. In addition, we may issue up to 975,000 common units to satisfy delivery obligations under the grants, less any common units issued upon exercise of unit options under the plan (see below). If we issue new common units upon vesting of the restricted units, the total number of common units outstanding will increase. Following the subordination period, the Compensation Committee, in its discretion, may grant tandem distribution equivalent rights with respect to restricted units.

The restricted units (other than director grants) will vest only after, and in the same proportion as, any conversion of subordinated units into common units. As discussed below, subordinated units will convert at the end of the subordination period (as defined in the partnership agreement). After conversion of the subordinated units, most of the restricted units are subject to an additional 90-day waiting period before vesting occurs. Certain of the restricted unit grants contain additional vesting requirements tied to the Partnership achieving targeted distribution thresholds, generally \$2.10, \$2.30 and \$2.50 per unit (annualized).

The subordination period (as defined in the partnership agreement) will end if certain financial tests are met for three consecutive four-quarter periods (the “testing period”), but no sooner than December 31, 2003. During the first quarter after the end of the subordination period, all of the subordinated units will convert into common units. Early conversion of a portion of the subordinated units may occur if the testing period is satisfied before December 31, 2003.

Under generally accepted accounting principles, we are required to recognize an expense when the financial tests for conversion of subordinated units and required distribution levels are met. The financial tests involve GAAP accounting concepts as well as complex and esoteric cash receipts and disbursement concepts that are indexed to the minimum quarterly distribution rate of \$1.80 per limited partner unit. Because of this complexity, it is difficult to forecast when the vesting of these restricted units will occur. However, at the current annualized distribution level of \$2.15 per unit, assuming the subordination conversion test is met, the costs associated with the vesting of up to approximately 845,000 units would be incurred or accrued in the second half of 2003 or the first quarter of 2004. At an annualized distribution level of \$2.30 to \$2.49, the number of units would be approximately 935,000. At a distribution level at or above \$2.50, the number of units would be approximately 1,025,000. Our ability to continue to meet the requirements for conversion and vesting is subject to a number of economic and operational contingencies.

We are currently planning to issue units to satisfy the first 975,000 vested and delivered (after any units withheld for taxes), and to purchase units in the open market to satisfy any vesting obligations in excess of that amount. Issuance of units would result in a non-cash compensation expense, while a purchase of units would result in a cash charge to compensation expense. In addition, the “company match” portion of payroll taxes, plus the value of any units withheld for taxes, would result in a cash charge. The amount of the charge to expense will depend on the unit price on the date vesting occurs, multiplied by the number of units.

The issuance of the common units pursuant to the restricted unit plan is primarily intended to serve as a means of incentive compensation for performance. Therefore, no consideration will be paid to us by the plan participants upon receipt of the common units.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In 2000, the three non-employee directors of our former general partner (Messrs. Goyanes, Sinnott and Smith) were each granted 5,000 restricted units. These units vested in connection with the consummation of the General Partner Transition. Additional grants of 5,000 restricted units were made in 2002 to each non-employee director of our general partner. These units vest in 25% increments on each anniversary of June 8, 2001. The first vesting took place on June 8, 2002.

Unit Option Plan. The Unit Option Plan under our Long-Term Incentive Plan currently permits the grant of options covering common units. No grants have been made under the Unit Option Plan to date. However, the Compensation Committee may, in the future, make grants under the plan to employees and directors containing such terms as the committee shall determine, provided that unit options have an exercise price equal to the fair market value of the units on the date of grant. Unit options granted during the subordination period will become exercisable automatically upon, and in the same proportions as, the conversion of the subordinated units to common units, unless a later vesting date is provided.

Upon exercise of a unit option, our general partner may deliver common units acquired by it in the open market, or in private transactions, or use common units already owned by our general partner, or any combination of the foregoing. In addition, we may issue up to 975,000 common units to satisfy delivery obligations under the grants less any common units issued upon vesting of restricted units under the plan. Our general partner will be entitled to reimbursement by us for the difference between the cost incurred by our general partner in acquiring such common units and the proceeds received by our general partner from an optionee at the time of exercise. Thus, the cost of the unit options will be borne by us. If we issue new common units upon exercise of the unit options, the total number of common units outstanding will increase, and our general partner will remit to us the proceeds received by it from the optionee upon exercise of the unit option.

Certain employees and officers of the general partner have received grants of equity not associated with the Long-Term Incentive Plan described above, and for which we have no cost or reimbursement obligations (see Note 12).

Note 14—Commitments and Contingencies

We lease certain real property, equipment and operating facilities under various operating leases. We also incur costs associated with leased land, rights-of-way, permits and regulatory fees, the contracts for which generally extend beyond one year but can be cancelled at any time should they not be required for operations. Future non-cancellable commitments related to these items at December 31, 2002, are summarized below (in millions):

2003	\$	9.4
2004	\$	9.6
2005	\$	9.4
2006	\$	7.0
2007	\$	2.7
Thereafter	\$	0.5

Total lease expense incurred for 2002, 2001 and 2000 was \$8.3 million, \$7.4 million and \$6.7 million, respectively. As is common within the industry and in the ordinary course of business, we have also entered into various operational commitments and agreements related to pipeline operations and to marketing, transportation, terminalling and storage of crude oil and liquefied petroleum gas.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Litigation

Export License Matter. In our gathering and marketing activities, we import and export crude oil from and to Canada. Exports of crude oil are subject to the short supply controls of the Export Administration Regulations EAR and must be licensed by the Bureau of Industry and Security (the “BIS”) of the U.S. Department of Commerce. We have determined that we may have exceeded the quantity of crude oil exports authorized by previous licenses. Export of crude oil in excess of the authorized amounts is a violation of the EAR. On October 18, 2002, we submitted to the BIS an initial notification of voluntary disclosure. The BIS subsequently informed us that we could continue to export while previous exports were under review. We applied for and have received a new license allowing for exports of volumes more than adequately reflecting our anticipated needs. At this time, we have received no indication whether the BIS intends to charge us with a violation of the EAR or, if so, what penalties would be assessed. As a result, we cannot estimate the ultimate impact of these potential violations.

Other Litigation. We, in the ordinary course of business, are a claimant and/or a defendant in various other legal proceedings. We do not believe that the outcome of these other legal proceedings, individually and in the aggregate, will have a materially adverse effect on our financial condition, results of operations or cash flows.

Other

A pipeline, terminal or other facilities may experience damage as a result of an accident or natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. We maintain insurance of various types that we consider adequate to cover our operations and properties. The insurance covers all of our assets in amounts considered reasonable. The insurance policies are subject to deductibles that we consider reasonable and not excessive. Our insurance does not cover every potential risk associated with operating pipelines, terminals and other facilities including the potential loss of significant revenues. Consistent with insurance coverage generally available to the industry, our insurance policies provide limited coverage for losses or liabilities relating to pollution, with broader coverage for sudden and accidental occurrences. The events of September 11, 2001, and their overall effect on the insurance industry has adversely impacted the availability and cost of coverage. Due to these events, insurers have excluded acts of terrorism and sabotage from our insurance policies. On certain of our key assets, we purchased a separate insurance policy for acts of terrorism and sabotage.

Since the terrorist attacks, the United States Government has issued numerous warnings that energy assets (including our nation's pipeline infrastructure) may be future targets of terrorist organizations. These developments expose our operations and assets to increased risks. The DOT has developed a security guidance document and has issued a security circular that defines critical pipeline facilities and appropriate countermeasures for protecting them, and explains how DOT plans to verify that operators have taken appropriate action to implement satisfactory security procedures and plans. Using the guidelines provided by the DOT, we have specifically identified certain of our facilities as DOT "critical facilities" and therefore potential terrorist targets. In compliance with DOT guidance, we are performing vulnerability analyses on such facilities. Upon completion of such analyses, we will institute as appropriate any indicated security measures or procedures that are not already in place. We cannot assure you that these or any other security measures would protect our facilities from a concentrated attack. Any future terrorist attacks on our facilities, those of our customers and, in some cases, those of our competitors, could have a material adverse effect on our business, whether insured or not.

The occurrence of a significant event not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our operations and financial condition.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We believe that we are adequately insured for public liability and property damage to others with respect to our operations. With respect to all of our coverage, no assurance can be given that we will be able to maintain adequate insurance in the future at rates we consider reasonable.

We may experience future releases of crude oil into the environment from our pipeline and storage operations, or discover past releases that were previously unidentified. Although we maintain an inspection program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any such environmental releases from our assets may substantially affect our business.

Note 15—Environmental Remediation

In connection with various acquisitions, we have received indemnities from the sellers for environmental exposure, subject to our prior payment of certain threshold amounts. Based on our investigations of the assets acquired in such acquisitions, we have identified several sites that exceed the threshold limitations under the various indemnities. Although we have not yet determined the total cost of remediation of these sites, we believe our indemnification arrangements should prevent such costs from having a material adverse effect on our financial condition, results of operations or cash flows.

During 2002, we reassessed previous investigations and completed environmental studies related to environmental conditions associated with our 1999 acquisitions. As of December 31, 2002, we have a \$1.6 million accrual associated with our remediation obligations of these sites. This amount is approximately equal to the threshold amounts the partnership must incur before the sellers' indemnities take effect. In many cases, the actual cash expenditures may not occur for ten years and, accordingly, the majority of the liability is included in other long-term liabilities on the consolidated balance sheet.

Other assets we have acquired or will acquire in the future may have environmental remediation liabilities for which we are not indemnified. We may experience future releases of crude oil into the environment from our pipeline and storage operations, or discover releases that were previously unidentified. Although we maintain an extensive inspection program designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any future environmental releases from our assets may substantially affect our business.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 16—Quarterly Financial Data (Unaudited):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total ⁽¹⁾
	(in millions, except per unit data)				
2002					
Revenues	\$1,545.3	\$1,985.3	\$2,344.1	\$2,509.5	\$8,384.2
Gross margin	38.4	41.7	44.3	49.9	174.3
Operating income	20.7	23.4	23.8	26.7	94.6
Net income	14.3	17.0	16.3	17.7	65.3
Income per limited partner unit	0.31	0.37	0.33	0.33	1.34
Cash distributions per common unit ⁽²⁾	\$ 0.525	\$ 0.538	\$ 0.538	\$ 0.538	\$ 2.14
2001					
Revenues	\$1,520.1	\$1,586.6	\$2,191.3	\$1,570.2	\$6,868.2
Gross margin	32.7	36.4	39.6	33.5	142.3
Operating income	19.1	14.8	22.9	14.5	71.4
Income before cumulative effect of accounting change	12.5	7.1	15.2	8.9	43.7
Cumulative effect of accounting change	0.5	—	—	—	0.5
Net income	13.0	7.1	15.2	8.9	44.2
Income per limited partner unit before cumulative effect of accounting change	0.36	0.19	0.38	0.20	1.12
Cumulative effect of accounting change	0.01	—	—	—	0.01
After cumulative effect of accounting change	0.37	0.19	0.38	0.20	1.13
Cash distributions per common unit ⁽²⁾	\$ 0.475	\$ 0.500	\$ 0.513	\$ 0.513	\$ 2.000

(1) The sum of the four quarters does not equal the total year due to rounding.

(2) Represents cash distributions declared per common unit for the period indicated. Distributions were paid in the following calendar quarter.

PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 17—Operating Segments

Our operations consist of two operating segments: (1) Pipeline Operations—engages in interstate and intrastate crude oil pipeline transportation and certain related merchant activities; (2) Gathering, Marketing, Terminalling and Storage Operations—engages in purchases and resales of crude oil and LPG at various points along the distribution chain and the operation of certain terminalling and storage assets. We evaluate segment performance based on gross margin and gross profit (gross margin less general and administrative expenses).

	<u>Pipeline</u>	<u>Gathering Marketing, Terminalling & Storage</u>	<u>Total</u>
		(in millions)	
Twelve Months Ended December 31, 2002			
Revenues:			
External Customers	\$ 462.4	\$ 7,921.8	\$8,384.2
Intersegment ^(a)	23.8	—	23.8
	<u>\$ 486.2</u>	<u>\$ 7,921.8</u>	<u>\$8,408.0</u>
Total revenues of reportable segments			
Segment gross margin ^(b)	\$ 83.9	\$ 90.4	\$ 174.3
General and administrative expenses ^{(c)(d)}	13.2	31.5	44.7
	<u>\$ 70.7</u>	<u>\$ 58.9</u>	<u>\$ 129.6</u>
Segment gross profit ^(e)			
Capital expenditures	\$ 340.2	\$ 23.3	\$ 365.2
Total assets	\$1,030.7	\$ 635.9	\$1,666.6
Maintenance capital	\$ 3.4	\$ 2.6	\$ 6.0
<hr/>			
Twelve Months Ended December 31, 2001			
Revenues:			
External Customers	\$ 339.9	\$ 6,528.3	\$6,868.2
Intersegment ^(a)	17.5	—	17.5
	<u>\$ 357.4</u>	<u>\$ 6,528.3</u>	<u>\$6,885.7</u>
Total revenues of reportable segments			
Segment gross margin ^(b)	\$ 71.3	\$ 71.0	\$ 142.3
General and administrative expenses ^{(c)(d)}	12.4	28.5	40.9
	<u>\$ 58.9</u>	<u>\$ 42.5</u>	<u>\$ 101.4</u>
Segment gross profit ^(e)			
Capital expenditures	\$ 169.8	\$ 80.4	\$ 250.2
Total assets	\$ 472.3	\$ 788.9	\$1,261.2
Maintenance capital	\$ 0.5	\$ 2.9	\$ 3.4
<hr/>			
Twelve Months Ended December 31, 2000			
Revenues:			
External Customers	\$ 505.7	\$ 6,135.5	\$6,641.2
Intersegment ^(a)	68.7	—	68.7
	<u>\$ 574.4</u>	<u>\$ 6,135.5</u>	<u>\$6,709.9</u>
Total revenues of reportable segments			
Gain on sale of assets	\$ 48.2	\$ —	\$ 48.2
Segment gross margin ^(b)	51.8	75.9	127.7

General and administrative expenses ^{(c)(d)}	12.7	25.0	37.7
Segment gross profit ^(e)	\$ 39.1	\$ 50.9	\$ 90.0
Capital expenditures	\$ 1.5	\$ 11.1	\$ 12.6
Total assets	\$ 324.8	\$ 561.0	\$ 885.8
Maintenance capital	\$ 0.4	\$ 1.4	\$ 1.8

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PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- (a) Intersegment sales were conducted on an arm's length basis.
- (b) Gross margin is calculated as revenues less cost of sales and operations expense. The 2001 gross margin includes the impact of the \$5.0 million inventory valuation adjustment.
- (c) G&A expenses reflect direct costs attributable to each segment and an allocation of other expenses to the segment based on the business activities that exist at that time. For comparison purposes, we have reclassified G&A expenses by segment for all periods presented to conform to the refined presentation used in 2002. The proportional allocation by segment will continue to be based on the business activities that exist during each period.
- (d) In 2002, \$1.0 million write-off of deferred acquisition-related costs was excluded as it is not attributable to the segments. Also, \$5.7 million and \$3.1 million of non cash compensation expense in 2001 and 2000, respectively, was excluded as it is not allocated to the segments.
- (e) Gross profit is calculated as revenues less costs of sales and operations expenses and general and administrative expenses, excluding noncash compensation expense.

Geographic Data

Prior to 2001, all of our revenues were derived from, and our assets located in, the United States. During 2001, we expanded into Canada (see Note 4). Set forth below is a table of 2002 and 2001 revenues and long lived assets attributable to these geographic areas (in millions):

	For the Year Ended December 31,	
	2002	2001
Revenues		
United States	\$ 6,941.7	\$ 6,149.8
Canada	1,442.5	718.4
	<u>\$ 8,384.2</u>	<u>\$ 6,868.2</u>
	As of December 31,	
	2002	2001
Long-Lived Assets		
United States	\$ 866.9	\$ 567.6
Canada	194.1	188.2
	<u>\$ 1,061.0</u>	<u>\$ 755.8</u>

Subsidiaries and Partnerships of Plains All American Pipeline, L.P.

Corporations

- Plains Marketing GP Inc.
- PMC (Nova Scotia) Company

Partnerships

- Plains Marketing, L.P.
- All American Pipeline, L.P.
- Plains AAP, L.P.
- Basin Pipeline Holdings, L.P.
- Rancho Pipeline Holdings, L.P.

Limited Liability Companies

- Plains All American GP LLC
- Plains Marketing Canada LLC
- Basin Pipeline Holdings GP LLC
- Rancho Pipeline Holdings GP LLC

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-91141, 333-54118, 333-74920) and Form S-3 (Nos. 333-59224, 333-68446) of Plains All American Pipeline L.P. of our report dated February 26, 2003, relating to the consolidated financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Houston, Texas
February 28, 2003