Pembina Pipeline Corporation

2015 ANNUAL REPORT

Building Something **Extraordinary**

News Release

Pembina Pipeline Corporation
2015 ANNUAL REPORT

Pembina Pipeline Corporation Reports Strong 2015 Results

Milestone results with increased financial metrics year over year

All financial figures are in Canadian dollars unless noted otherwise. This report contains forward-looking statements and information that are based on Pembina Pipeline Corporation's ("Pembina" or the "Company") current expectations, estimates, projections and assumptions in light of its experience and its perception of historic trends. Actual results may differ materially from those expressed or implied by these forward-looking statements. Please see "Forward-Looking Statements & Information" in the Company's Management's Discussion & Analysis ("MD&A") for more details. This report also refers to net revenue, operating margin, earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted cash flow from operating activities (and cash flow from operating activities per common share and adjusted cash flow from operating activities per common share), and total enterprise value, which are financial measures that are not defined by Generally Accepted Accounting Principles ("GAAP"). Pembina's methods of calculating these financial measures may not be directly comparable to that of other companies. Pembina considers these non-GAAP financial measures to provide useful information to both management and investors in measuring Pembina's financial performance and financial condition. For more information about the measures which are not defined by GAAP, including a reconciliation to the most directly comparable GAAP measure, see "Non-GAAP and Additional GAAP Measures" in the accompanying MD&A.

Financial Overview

($ millions, except where noted)	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
	2015	2014	**2015**	2014
Conventional Pipelines revenue volumes *(mbpd)*[(1)(2)]	**621**	612	**614**	575
Oil Sands & Heavy Oil contracted capacity *(mbpd)*[(1)]	**880**	880	**880**	880
Gas Services average revenue volumes *(mboe/d)* net to Pembina[(2)(3)]	**103**	97	**110**	86
Midstream NGL sales volumes *(mbpd)*[(1)(4)]	**123**	130	**116**	119
Total volume *(mbpd)*[(1)]	**1,727**	1,719	**1,720**	1,660
Revenue	**1,242**	1,259	**4,635**	6,069
Net revenue[(5)]	**407**	304	**1,507**	1,469
Operating margin[(5)]	**304**	195	**1,118**	1,078
Gross profit	**237**	144	**866**	876
General and administrative expenses (excluding corporate depreciation)	**36**	25	**143**	146
Earnings	**130**	84	**406**	383
Earnings per common share – basic *(dollars)*	**0.32**	0.22	**1.02**	1.07
Earnings per common share – diluted *(dollars)*	**0.32**	0.22	**1.02**	1.06
EBITDA[(5)]	**260**	170	**955**	920
Cash flow from operating activities	**285**	196	**801**	800
Cash flow from operating activities per common share – basic *(dollars)*[(5)]	**0.79**	0.58	**2.31**	2.45
Adjusted cash flow from operating activities[(5)]	**280**	164	**878**	777
Adjusted cash flow from operating activities per common share – basic *(dollars)*[(5)]	**0.77**	0.49	**2.53**	2.38
Common share dividends declared	**168**	146	**628**	563
Preferred share dividends declared	**13**	10	**48**	31
Dividends per common share *(dollars)*	**0.46**	0.44	**1.80**	1.72
Capital expenditures	**448**	483	**1,811**	1,412

(1) mbpd is thousands of barrels per day.
(2) Revenue volumes are equal to contracted plus interruptible volumes.
(3) Gas Services average revenue volumes converted to mboe/d (thousands of barrels of oil equivalent per day) from million cubic feet per day ("MMcf/d") at 6:1 ratio.
(4) NGL is natural gas liquids.
(5) Refer to "Non-GAAP and Additional GAAP Measures."

2015 Highlights

"I am very proud to report that 2015 was another milestone year for Pembina," said Scott Burrows, Pembina's Vice President, Finance and Chief Financial Officer. "During 2015, we successfully and safely placed into service over $1.3 billion of new projects which, along with the sound and reliable operations of our underlying business, supported our record volumes and allowed us to achieve our highest ever annual financial metrics including operating margin, EBITDA and adjusted cash flow from operating activities per share."

"While the energy markets have changed dramatically during 2015 compared to the previous year, we continue to deliver solid results through these challenging times faced by our industry," continued Mr. Burrows. "Given this market volatility, it is important that I reiterate our goals at Pembina have not changed and we remain focused on doing the important things right, which includes operating our business safely and reliably, successfully executing on our growth plans, working to achieve our cost savings goal of $225 million and taking a prudent approach to maintaining and growing shareholder value. Pembina has always been a dividend-paying company and our management and Board are very proud of the fact that we have never cut the dividend and have increased it over the last four consecutive years, which includes the 5.2 percent increase we announced during 2015."

"We are also pleased with the continued access to capital that we have achieved, raising approximately $2.3 billion (including our Dividend Reinvestment Program) of capital in 2015, as well as completing our most recent $170 million preferred share offering, subsequent to year end. Heading into 2016 with record capital expenditures ahead of us, we are confident in our ability to fund our capital program," concluded Mr. Burrows.

Mick Dilger, Pembina's President and Chief Executive Officer commented: "Further highlighting our operational achievements over 2015, I am very pleased to report that we have reached record throughput levels in both our Conventional Pipelines and Gas Services businesses, where annual revenue volumes increased 7 and 27 percent, respectively. We are also continuing to see strong operational results into 2016, where our Conventional Pipelines average revenue volumes were in excess of 650 thousand barrels per day in the month of January – our strongest month yet."

"On an even more important note, I also want to commend our staff on our exceptional safety record. We have now achieved two consecutive years without any employee lost-time injuries, where employees have worked over 5.1 million hours since the beginning of 2014 and 18 percent more hours in 2015 compared to 2014. This remarkable track record demonstrates our safety-first culture and complete dedication by our staff – safety is truly a way of life here at Pembina."

"We are now at a point where we will be bringing new assets online almost every quarter into 2017. These projects are backed by firm contracts with our customers and will serve to further de-risk our business by providing incremental, stable, contracted cash flow streams and ultimately growing the bottom line for our shareholders. In fact, almost 80 percent of our 2015 EBITDA was generated from fee-for-service contracts and we forecast this to exceed 80 percent by 2018, given current commodity strip pricing."

"Other achievements during 2015 include announcing a further $600 million of new capital projects, substantially backed by long-term, fee-for-service contracts, and having also brought in over $1.3 billion of new, fee-for-service projects into service, which going forward will add between $100 and $150 million of incremental run-rate EBITDA, depending on utilization. We are also continuing to progress a further $5.3 billion of growth projects, which in 2018 is estimated to add between $600 and $950 million of incremental run-rate EBITDA, depending on utilization. This will be a transformative milestone for us and is something we are very excited about."

"On another matter, we understand that the current environment is difficult for our customers. We value these relationships and are committed to continually work with our customers to do what we can to decrease our operating costs in order to help support and improve producer net backs."

"Further, helping the communities we operate in is more important than ever during these times, and is why I'm proud of the community programs Pembina and our employees support by committing time volunteering and through donations. We are confident that our investment of time and funds has the profound potential to make a difference in our communities – especially during times when it is needed the most."

"Overall, 2015 has been a year of many successes and has also been a year of challenges, given the current macroeconomic environment. I remain cautiously optimistic that we can overcome today's current headwinds and continue to provide sustainable returns for our shareholders for many years to come," concluded Mr. Dilger.

2015 Financial Review

Pembina delivered solid financial and operational results in 2015 with record throughput, EBITDA, operating margin, cash and adjusted cash flow per share, demonstrating the financial resilience of Pembina's fee-for-service business model. Revenue was $4.6 billion and $1.2 billion for the full year and fourth quarter of 2015, compared to $6.1 billion and $1.3 billion in the same periods of 2014, largely a result of the reduced commodity prices that also positively impacted the cost of product purchases. The Company's Conventional Pipelines and Gas Services businesses had an increase in revenue of 22 percent and 27 percent during 2015 compared to 2014. This strong performance resulted from higher volumes and new assets being placed in service and was complemented with the steady results in the Oil Sands and Heavy Oil business. For the full year, net revenue (revenue less cost of goods sold including product purchases) in 2015 was $1.5 billion, consistent with 2014 and $407 million for the fourth quarter of 2015 as compared to $304 million for the same period in 2014. Net revenue in the Midstream business declined by 22 percent as compared to 2014, largely due to lower commodity prices, and, to a lesser extent, tighter price differentials across most commodities.

Operating expenses were $426 million for the full year in 2015, compared to $401 million during the same period of 2014, with the increase primarily due to the addition of assets, offset by the sale of the Company's non-core trucking subsidiary in its Midstream business recognized in the second quarter of 2014. For the fourth quarter of 2015, operating expenses were $110 million compared to $117 million in the same period of 2014. The quarter-over-quarter decrease in operating expenses was primarily related to timing of integrity spending in the Company's Conventional Pipelines business, which was partially offset by the addition of new assets.

For the year ended December 31, 2015, operating margin was $1,118 million compared to $1,078 million in 2014 primarily due to increases in the Company's Conventional Pipelines and Gas Services businesses from new assets being placed in service and increased volumes, offset by decreases in the Midstream business. The Oil Sands and Heavy Oil business maintained a reliable contribution to the operating margin with a two percent year-over-year increase. During the fourth quarter of 2015, operating margin was $304 million compared to $195 million in the fourth quarter of 2014 primarily due to increased contribution from the Company's Conventional Pipelines and Midstream businesses. Pembina's Midstream business results in 2014 were impacted by an inventory impairment recognized in the fourth quarter and overall higher cost of product which reduced net revenue.

Depreciation and amortization included in operations during 2015 was $249 million compared to $216 million for the full year of 2014. This increase was primarily due to the year-over-year growth in Pembina's asset base primarily associated with the Company's pipeline expansions, the Vantage pipeline acquisition, in addition to certain useful life adjustments partially offset by decreased amortization in the Midstream business associated

with intangibles that were fully depreciated in the prior year and the sale of a non-core trucking related subsidiary. In the fourth quarter of 2015, depreciation and amortization included in operations rose to $73 million compared to $62 million in the same period last year primarily due to new assets in service.

Gross profit for 2015 was $866 million compared to $876 million for 2014 due to increased operating margin offset by a greater increase in depreciation and amortization included in operations. In the fourth quarter of 2015, gross profit was $237 million compared to $144 million in 2014. This quarter-over-quarter increase was a result of increased operating margin partially offset by an increase in depreciation and amortization included in operations and increased unrealized mark-to-market positions of commodity-related derivative financial instruments.

The Company’s general and administrative expenses (excluding corporate depreciation and amortization) remained relatively consistent year over year. For the year ending December 31, 2015, Pembina incurred general and administrative expenses (excluding corporate depreciation and amortization) of $143 million compared to $146 million in 2014. Increased salary, benefit and rent expenses due to increased staff to support new in-service assets were offset by decreased short and long-term incentives. General and administrative expenses (excluding corporate depreciation and amortization) for the fourth quarter of 2015 increased to $36 million as compared to $25 million in the same period of 2014. These increases were primarily due to fluctuations in the share price and the impact on long-term incentive expenses incurred in the quarter as compared to the previous year. Every $1 change in share price is expected to change Pembina's annual share-based incentive expense by approximately $1 million.

Pembina generated EBITDA of $955 million in 2015, a $35 million increase over 2014 EBITDA of $920 million. The increase was largely due to higher operating margin as described above. EBITDA for the fourth quarter of 2015 was $260 million, compared to $170 million for the same period in 2014. This increase was due to higher operating margin partially offset by the quarter-over-quarter increase in general and administrative expenses and other expenses. Other expenses in 2015 include a $13 million de-recognition of costs related to the propane export terminal project and an $8 million loss on the sale of linefill.

Net finance costs totalled $71 million in 2015, a $59 million decrease from $130 million recognized in 2014. This decrease is largely attributable to the change in fair value of the conversion feature on the series E and F convertible debentures ("Conversion Feature"). The Conversion Feature was impacted by the reduction in the principal outstanding, primarily as a result of the October 13, 2015 redemption of the series E convertible debentures, as well as changes in the share price. In 2015, Pembina recognized a gain on revaluation of $40 million, compared to a loss on revaluation of $41 million in 2014. Partially offsetting the decreased costs were interest expenses on loans and borrowings, which increased from $90 million in 2014 to $103 million in 2015, as a result of an increased level of outstanding loans and borrowings to fund growth capital. Net finance costs incurred during the fourth quarter of 2015 were $22 million compared to income of $9 million for the fourth quarter of 2014. This increase is largely attributable to the revaluation of the Conversion Feature identified above.

Income tax expense for 2015 totalled $199 million, including current tax of $41 million and deferred tax of $158 million, compared to income tax expense of $167 million in 2014, including current tax of $103 million and deferred tax of $64 million. Current tax expense for 2015 was lower than the comparable period in 2014 predominantly due to lower taxable income allocations from deferral partnerships in our corporate structure. The increase in deferred tax expense in the current quarter is mainly attributable to an increase in the income tax rate and higher taxable temporary differences between book and tax basis. Alberta's Finance Minister increased the general corporate tax rate from 10 percent to 12 percent, effective July 1, 2015. Income tax expense was $31 million for the fourth quarter of 2015, including current tax recovery of $19 million and deferred tax of $50 million,

compared to $39 million, including current tax expense of $28 million and deferred tax of $11 million in the same period of 2014. The decrease in current taxes is attributable to a decrease in taxable income in the fourth quarter of 2015 as compared to the prior year for the same reasons as noted above. The increase in deferred taxes was due to the increase in the income tax rate previously noted.

The Company's earnings increased six percent to $406 million ($1.02 per common share-basic) in 2015 compared to $383 million ($1.07 per common share-basic) in 2014. The increase was most significantly impacted by the increased operating margin and lower net finance costs offset by increased deferred tax and depreciation and amortization expenses in 2015. For the fourth quarter of 2015, the Company's earnings increased $46 million to $130 million ($0.32 per common share-basic) compared to $84 million ($0.22 per common share-basic) during the fourth quarter of 2014. This was driven by higher operating margin slightly offset by higher net finance costs as well as increased general and administrative and depreciation and amortization expenses recognized in the fourth quarter. The per common share amounts were impacted by the increase in the number of common shares outstanding largely as a result of the dividend reinvestment plan, convertible debenture redemptions and conversions and the November 19, 2015 common share issuance.

Cash flow from operating activities remained relatively consistent year over year. Cash flow from operating activities was $801 million ($2.31 per common share-basic) for the year ended December 31, 2015 compared to $800 million ($2.45 per common share-basic) in 2014. Increased operating margin and a decreased change in non-cash working capital was offset by increased taxes paid in 2015. Cash flow from operating activities increased $89 million in the fourth quarter of 2015 as compared to the same period in 2014. Cash flow from operating activities was $285 million ($0.79 per common share-basic) during the fourth quarter of 2015 compared to $196 million ($0.58 per common share-basic) for the same period in 2014 primarily due to increased operating margin and payments received and deferred.

Adjusted cash flow from operating activities increased $101 million to $878 million ($2.53 per common share-basic) in 2015 as compared to $777 million ($2.38 per common share-basic) during 2014. The increase was primarily due to increased operating margin and lower current tax and share-based compensation expenses offset by increased preferred share dividends declared. Adjusted cash flow from operating activities increased in the fourth quarter of 2015 as compared to 2014. Adjusted cash flow from operating activities was $280 million ($0.77 per common share-basic) in 2015 as compared to $164 million ($0.49 per common share-basic) during the fourth quarter of 2014. The increase is largely due to higher operating margin and lower current tax, offset by an increase in preferred share dividends declared.

Operating Results

	3 Months Ended December 31		**12 Months Ended December 31**	
(mbpd, except where noted)(1)	**2015**	2014	**2015**	2014
Conventional Pipelines revenue volumes(2)	**621**	612	**614**	575
Oil Sands & Heavy Oil contracted capacity	**880**	880	**880**	880
Gas Services average volumes processed *(mboe/d)* net to Pembina(2)(3)	**103**	97	**110**	86
Midstream NGL sales volume(4)	**123**	130	**116**	119
Total volume	**1,727**	1,719	**1,720**	1,660

(1) mbpd is thousands of barrels per day.

(2) Revenue volumes are equal to contracted plus interruptible volumes.

(3) Gas Services average revenue volumes converted to mboe/d from MMcf/d at 6:1 ratio.

(4) NGL is natural gas liquids.

	3 Months Ended December 31 (unaudited)				12 Months Ended December 31			
	2015		2014		**2015**		2014	
($ millions)	**Revenue**	**Operating Margin[1]**	Revenue	Operating Margin[1]	**Revenue**	**Operating Margin[1]**	Revenue	Operating Margin[1]
Conventional Pipelines	**163**	**109**	146	74	**628**	**401**	513	302
Oil Sands & Heavy Oil	**56**	**36**	52	34	**213**	**139**	204	136
Gas Services	**51[1]**	**33**	46	29	**208[1]**	**144**	165	107
Midstream	**137[1]**	**123**	61[1]	57	**458[1]**	**427**	587[1]	528
Corporate		**3**	(1)	1		**7**		5
Total	**407**	**304**	304	195	**1,507**	**1,118**	1,469	1,078

[1] Net revenue (revenue less cost of goods sold including product purchases). Refer to "Non-GAAP and Additional GAAP Measures."

- For the twelve and three months ended December 31, 2015, financial and operating results in Conventional Pipelines were higher than the comparable periods of 2014 primarily due to the completion of Pembina's Peace and Northern Phase II expansion (the "Phase II Expansion") which includes (i) the crude oil and condensate or the low vapour pressure ("LVP") expansion ("Phase II LVP"), which was placed into service in April 2015, and (ii) the NGL or the high vapour pressure ("HVP") expansion ("Phase II HVP"), which was placed into service in September 2015 and is now fully commissioned. Mainline throughput also increased as a result of: additional volumes from the Vantage pipeline beginning late in 2014; new connections placed into service on Pembina's Peace Phase I crude oil, condensate and NGL pipeline expansions; and new storage facilities and portions of pipeline associated with other expansion programs commissioned during 2015.
- In the Oil Sands & Heavy Oil business, for the three months ended December 31, 2015, net revenue was slightly higher compared to the same period in 2014 due to higher flow-through operating expenses, which are eligible to be recovered under Pembina's contractual arrangements with its customers, and was partially offset by reduced power and labour costs. Operating margin for the full year and fourth quarter of 2015 were also modestly increased compared to the same periods in 2014.
- In the Gas Services business, financial and operating results increased in the fourth quarter and year ended 2015 compared to the same periods of 2014 primarily due to the addition of the Musreau II facility ("Musreau II"), which was placed into service in December 2014, the addition of the Resthaven facility ("Resthaven"), which was placed into service in October 2014, and the Saturn II facility ("Saturn II") and the Saskatchewan Ethane Extraction Plant ("SEEP"), which were placed into service in August 2015.
- In the Midstream business, net revenue and operating margin for the fourth quarter of 2015 increased compared to the same period in 2014. This increase was largely a result of an inventory impairment recognized in the fourth quarter of 2014, as well as higher product margin sales in the fourth quarter of 2015, where inventory costs were significantly lower than the previous year. For the year end 2015 compared to the same period in 2014, net revenue and operating margin decreased due to the significantly lower commodity prices, particularly the weaker period-over-period propane and butane prices and tighter price differentials across most commodities.

New Developments in 2015 and Growth Projects Update

Conventional Pipelines

Pembina has been successful in its commercial efforts to secure the majority of its existing crude oil, NGL and condensate volumes under long-term, firm-service contracts. In aggregate, and including contracted volumes on the Vantage pipeline, Pembina currently has secured 777 mbpd of firm service contracts of crude oil, condensate and NGL across its Conventional Pipelines business once all expansions are placed into service.

Pembina commissioned its Phase II HVP expansion in September 2015. In conjunction with the Phase II LVP portion of the expansion, which was placed into service in April 2015, the entire Phase II Expansion is now in service. In aggregate, the Phase II Expansion has increased the Peace and Northern systems' capacity by 108 mbpd and is underpinned by five to ten-year contracts with substantial take-or-pay commitments from 40 customers.

Pembina continues work on its Phase III pipeline expansions ("Phase III Expansion"), which included bringing into service a 70 kilometre, 16-inch pipeline segment from Kakwa to Simonette in 2015. To date, the Company has completed 30 percent of the overall Phase III Expansion program and estimates the total capital cost to be $2.4 billion.

The Phase III Expansion also includes two pipelines between Fox Creek and Namao, Alberta (one 16-inch diameter and one 24-inch diameter) which would provide an initial combined capacity of 420 mbpd. The Alberta Energy Regulator ("AER") hearing for the project concluded in the fourth quarter of 2015 and Pembina expects to receive an AER written decision near the end of the first quarter of 2016. Subject to regulatory and environmental approvals, the Company continues to anticipate an in-service date of mid-2017.

As part of the Company's plans to expand its gathering presence in Alberta and British Columbia ("B.C."), Pembina completed its lateral in the Willesden Green area of Alberta during 2015 and is continuing work on its pipeline lateral in the Karr area of Alberta (the "Karr Lateral") which will service production from the Montney resource play and will access the Company's Phase III Expansion. All approvals have been received and construction has now commenced. Generally due to unseasonably warm weather, the project is tracking above budget; however, the contract largely protects Pembina from a cost risk perspective. Pembina continues to anticipate an in-service date of early 2016.

Pembina is continuing to progress its pipeline infrastructure in northeast B.C. (the "NEBC Expansion"). The NEBC Expansion, which is underpinned by a long-term, cost-of-service agreement with an anchor tenant, will transport condensate and NGL for various producers in the liquids-rich Montney resource play. To date, engineering is 90 percent complete and applications for regulatory and environmental approvals have now been submitted. The NEBC Expansion has an expected capital cost of $220 million and is anticipated to be in service in late 2017, subject to regulatory and environmental approvals.

In early 2016, subsequent to year end, Pembina entered into agreements for the construction of a new pipeline lateral in the Altares area of B.C. (the "Altares Lateral") which will transport production from the Montney resource play and will connect into Pembina's NEBC Expansion for an expected capital cost of $70 million. The Altares Lateral, underpinned by a long-term, cost-of-service agreement, is expected to have initial capacity of approximately 17 mbpd with an in-service date of mid-2017, subject to environmental and regulatory approval.

As announced in February 2015, Pembina continues to progress its expansion of the Vantage pipeline system (the "Vantage Expansion") for an estimated capital cost of $85 million. Supported by a long-term, fee-for-service agreement with a take-or-pay component, the Vantage Expansion will increase the mainline capacity from 40

mbpd to 68 mbpd through the addition of mainline pump stations and the construction of a gathering lateral. All regulatory and environmental approvals have now been received and construction of the gathering lateral is now complete with final commissioning work underway. Construction of the pump stations has now begun, and to date, the project cost is expected to be under budget. Pembina originally expected the Vantage Expansion to be completed in early 2016; however, due to a third-party plant delay, the Company expects to place it into service in the third quarter of 2016, with the contract commencing on August 1, 2016.

Pembina's projects and existing pipeline networks continue to have expansion capacity available to meet the needs of future developments currently under evaluation by its customers. Capacity increases to meet the Company's customers' existing and future demands can often be achieved through simple upgrades, such as adding new pump stations, which can be installed in less than 18 months. For example, adding pump stations to the Phase III Expansion could increase capacity from 420 mbpd to 680 mbpd in the Fox Creek to Edmonton corridor for an aggregate capacity on the Peace and Northern systems of 1,200 mbpd.

Gas Services

During the fourth quarter and full year 2015, Pembina continued to advance its growth projects as well as place new assets into service within the Gas Services business.

As previously announced in November, Pembina will construct, own and operate a new 100 MMcf/d shallow cut gas plant ("Duvernay I") in close proximity to the Company's Fox Creek Terminal for an expected capital cost, including supporting infrastructure, of $125 million. Duvernay I, which is underpinned by a substantial take-or-pay agreement with a large, diversified, investment-grade customer, will leverage the design of Pembina's Musreau II and the Musreau III facility ("Musreau III"). Duvernay I will be the first large-scale gas processing plant designed specifically for the Duvernay and creates a new growth platform for the Company. As part of this development, NGL production from Duvernay I will be transported on Pembina's Peace Pipeline under a long-term, take-or-pay agreement as well as fractionated under another agreement at the Company's Redwater site. Pembina has now received AER approval for the gas plant and is currently awaiting approval for the associated pipeline in relation to this project. The Company anticipates bringing Duvernay I in service in the second half of 2017, subject to the remaining environmental and regulatory approvals.

In late August, Pembina commissioned its Saturn II and SEEP facilities. Saturn II was placed into service ahead of schedule and under budget and SEEP was placed into service on time and also under budget. With the Saturn II and SEEP facilities in service, Pembina's Gas Services' capacity has increased 26 percent from 1.0 to 1.3 billion cubic feet per day ("bcf/d").

Plant construction of Pembina's 100 MMcf/d expansion of Resthaven (the "Resthaven Expansion") is ongoing. The overall project is approximately 80 percent complete and has an estimated capital cost of $105 million. In September, Pembina placed the gathering pipeline associated with the Resthaven Expansion into service. In advance of the Resthaven Expansion being placed into service, the newly commissioned pipeline is able to provide additional gas volumes for the Company's existing Resthaven facility. Pembina expects the Resthaven Expansion, which is underpinned by a fee-for-service agreement with a substantial take-or-pay component, to be in service in mid-2016.

The Company continues to advance its 100 MMcf/d shallow cut Musreau III facility, which is being built adjacent to Pembina's existing Musreau I facility ("Musreau I") and Musreau II. Regulatory and environmental approvals have been received and the overall project is approximately 75 percent complete and is tracking under budget from the

original expected cost of $105 million. Pembina anticipates bringing Musreau III, which is underpinned by long-term, take-or-pay agreements, on-stream in mid-2016.

Once the facilities under development described above are in service, Pembina expects Gas Services' processing capacity to reach approximately 1.6 bcf/d, including deep cut capacity of 900 MMcf/d. The volumes from Pembina's existing assets and those under development will be processed largely on a contracted, fee-for-service basis and results in condensate and NGL to be transported for additional toll revenue on Pembina's Conventional Pipelines.

Midstream

In December 2015, Pembina completed the construction of its second Redwater fractionator, a 73 mbpd ethane-plus fractionator at the Company's Redwater site ("RFS II"). RFS II is anticipated to be completed generally on budget from the estimated $415 million capital cost and is currently being commissioned with an expectation of being on stream by the end of March 2016 (one quarter later than originally expected).

Pembina is also advancing its third fractionator at Redwater ("RFS III") for an estimated capital cost of $400 million, which will have propane-plus capacity of 55 mbpd. Regulatory and environmental approval has been received and over 50 percent of all long-lead items have arrived onsite with construction of pilings and foundations now complete. Pembina expects RFS III to be in service in the third quarter of 2017 and, once complete, Pembina's Redwater site will be the largest fractionation facility in Canada with a total of 210 mbpd of fractionation capacity.

Pembina is progressing work to provide terminalling services for the North West Redwater Partnership ("North West") with respect to North West's planned refinery for an expected capital cost of $180 million. Underpinned by a long-term fixed return agreement and a long-term NGL mix purchase and sale agreement related to RFS III, the terminalling services include truck and rail loading, storage, as well as handling and processing equipment for a variety of products delivered from North West. Detailed engineering and procurement is 40 percent complete with substantially all long-lead mechanical items ordered. Subject to regulatory and environmental approvals, the storage services are expected to be in service in early 2017, with the remaining facilities to be phased in with final completion expected by late 2017.

Pembina continues to advance a detailed class three engineering estimate associated with the proposed Canadian Diluent Hub ("CDH"). Subject to further regulatory and environmental approvals, Pembina anticipates phasing in additional connections to various condensate delivery systems with a view to achieving full connectivity and service offerings at CDH in mid-2017.

At the Edmonton North Terminal ("ENT"), Pembina has now completed construction of three above ground storage tanks, which have a total working capacity of 550 thousand barrels, with the electrical work nearing completion and the mechanical integration continuing to be progressed. The project is estimated to have a capital cost of $75 million and is tracking on budget and on schedule to be in service in mid-2016.

At its NGL storage and terminalling facilities in Corunna, Ontario, Pembina is progressing a number of initiatives including the installation of a new brine pond, upgrades to its rail rack and construction of a new propane truck rack to meet increased demand for services. The propane racks were completed in December 2015, with remaining construction underway for the brine pond and rail racks. The remainder of the project is expected to be in service in early 2016.

Pembina remains committed to providing market access solutions for its customers by developing a North American west coast propane export terminal. Pembina is currently evaluating multiple potential west coast sites;

however, the Company has decided that it will no longer pursue the previously announced Portland, Oregon location.

Oil Sands & Heavy Oil

In June 2015, Pembina announced that it will expand its existing Horizon Pipeline System (the "Horizon Expansion"), underpinned by a fixed return, long-term agreement, for an estimated capital cost of $125 million. The Horizon Expansion will increase the pipeline's capacity up to 250 mbpd, which will be achieved by upgrading mainline pump stations and other facility modifications, as required. Engineering work is now complete, most regulatory and environmental approvals have been received and civil construction is underway. The Horizon Expansion is expected to be in service mid-2016.

Financing Activity

On February 2, 2015, Pembina closed an offering of $600 million of senior unsecured medium-term notes. The offering was conducted in two tranches: gross proceeds of $450 million in senior unsecured medium-term notes, Series 5, having a fixed coupon of 3.54 percent per annum, paid semi-annually, and which mature on February 3, 2025 and gross proceeds of $150 million through the re-opening of Pembina's Series 3, 4.75 percent medium-term notes, which mature April 30, 2043.

On April 10, 2015, Pembina closed a $225 million offering of nine million cumulative redeemable rate reset class A preferred shares, Series 9 (the "Series 9 Preferred Shares") at a price of $25.00 per share. The Series 9 Preferred Shares began trading on the Toronto Stock Exchange on April 10, 2015 under the symbol PPL.PR.I.

On June 16, 2015, Pembina closed an offering of $600 million of senior unsecured medium-term notes. The offering was conducted in two tranches: gross proceeds of $500 million in senior unsecured medium-term notes, Series 6, having a fixed coupon of 4.24 percent per annum, paid semi-annually, and which mature on June 15, 2027 and gross proceeds of $100 million through the re-opening of Pembina's Series 3, 4.75 percent medium-term notes, which mature April 30, 2043.

On November 19, 2015, Pembina closed a bought deal offering of 15,335,250 common shares at a price of $30.00 per share for aggregate gross proceeds of $460 million.

Subsequent to year end, on January 15, 2016, Pembina closed a $170 million offering of 6.8 million cumulative redeemable minimum rate reset class A preferred shares, Series 11 (the "Series 11 Preferred Shares") at a price of $25.00 per share. The Series 11 Preferred Shares began trading on the Toronto Stock Exchange on January 15, 2016 under the symbol PPL.PR.K.

Annual and Fourth Quarter 2015 Conference Call & Webcast

Pembina will host a conference call on Friday, February 26, 2016 at 8:00 a.m. MT (10:00 a.m. ET) for interested investors, analysts, brokers and media representatives to discuss details related to the full year and fourth quarter of 2015. The conference call dial-in numbers for Canada and the United States are (647) 427-7450 or (888) 231-8191. A recording of the conference call will be available for replay until March 5, 2016 at 9:59 p.m. MT (11:59 p.m. ET). To access the replay, please dial either (416) 849-0833 or (855) 859-2056 and enter the password 92799429.

A live webcast of the conference call can be accessed on Pembina's website at pembina.com under Investor Centre, Presentation & Events, or by entering: http://event.on24.com/r.htm?e=1102318&s=1&k=5FC80138EB180EE6821C12D03D56BE1B in your web browser. Shortly after the call, an audio archive will be posted on the website for a minimum of 90 days.

2016 Investor Day

Pembina will hold an Investor Day on Monday, April 11, 2016 at the One King West Hotel in Toronto, Ontario. For parties interested in attending the event, please email investor-relations@pembina.com to request an invitation.

Management's Discussion & Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial and operating results of Pembina Pipeline Corporation ("Pembina" or the "Company") is dated February 25, 2016 and is supplementary to, and should be read in conjunction with, Pembina's audited consolidated annual financial statements for the years ended December 31, 2015 and 2014 ("Consolidated Financial Statements"). All dollar amounts contained in this MD&A are expressed in Canadian dollars unless otherwise noted.

Management is responsible for preparing the MD&A. This MD&A has been reviewed and recommended by the Audit Committee of Pembina's Board of Directors and approved by its Board of Directors.

This MD&A contains forward-looking statements (see "Forward-Looking Statements & Information") and refers to financial measures that are not defined by Generally Accepted Accounting Principles ("GAAP"). For more information about the measures which are not defined by GAAP, see "Non-GAAP and Additional GAAP Measures."

Readers should refer to page 48 for a list of abbreviations that may be used in this MD&A.

About Pembina

Calgary-based Pembina Pipeline Corporation is a leading transportation and midstream service provider that has been serving North America's energy industry for over 60 years. Pembina owns and operates an integrated system of pipelines that transport various products derived from natural gas and hydrocarbon liquids produced in western Canada and North Dakota. The Company also owns and operates gas gathering and processing facilities and an oil and natural gas liquids infrastructure and logistics business. Pembina’s integrated assets and commercial operations along the entire hydrocarbon value chain allow it to offer a full spectrum of midstream and marketing services to the energy sector.

Pembina is committed to working with its community and aboriginal neighbours, while providing value for investors in a safe, environmentally responsible manner. This balanced approach to operating ensures the trust Pembina builds among all of its stakeholders is sustainable over the long term.

Pembina’s common shares trade on the Toronto and New York stock exchanges under PPL and PBA, respectively. For more information, visit www.pembina.com.

Pembina's goal is to provide highly competitive and reliable returns to investors through monthly dividends on its common shares while enhancing the long-term value of its securities. To achieve this, Pembina's strategy is to:

- *Preserve value by providing safe, responsible, cost-effective and reliable services;*
- *Diversify the Company's asset base along the hydrocarbon value chain by providing integrated service offerings which enhance profitability;*
- *Pursue projects or assets that are expected to generate increased cash flow per share and capture long-life, economic hydrocarbon reserves; and*
- *Maintain a strong balance sheet through the application of prudent financial management to all business decisions.*

Pembina is structured into four businesses: Conventional Pipelines, Oil Sands & Heavy Oil, Gas Services and Midstream, which are described in their respective sections of this MD&A.

Financial & Operating Overview

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2015**	2014	**2015**	2014
Conventional Pipelines revenue volumes *(mbpd)*[(1)(2)]	**621**	612	**614**	575
Oil Sands & Heavy Oil contracted capacity *(mbpd)*[(1)]	**880**	880	**880**	880
Gas Services average revenue volumes *(mboe/d)* net to Pembina[(2)(3)]	**103**	97	**110**	86
Midstream NGL sales volumes *(mbpd)*[(1)(4)]	**123**	130	**116**	119
Total volume *(mbpd)*[(1)]	**1,727**	1,719	**1,720**	1,660
Revenue	**1,242**	1,259	**4,635**	6,069
Net revenue[(5)]	**407**	304	**1,507**	1,469
Operating expenses	**110**	117	**426**	401
Realized (gain) on commodity-related derivative financial instruments	**(7)**	(8)	**(37)**	(10)
Operating margin[(5)]	**304**	195	**1,118**	1,078
Depreciation and amortization included in operations	**73**	62	**249**	216
Unrealized (gain) loss on commodity-related derivative financial instruments	**(6)**	(11)	**3**	(14)
Gross profit	**237**	144	**866**	876
General and administrative expenses	**42**	28	**157**	156
Other expenses	**10**	2	**24**	18
Net finance costs (income)	**22**	(9)	**71**	130
Share of loss of investment in equity accounted investees, net of tax	**2**		**9**	22
Current tax (recovery) expense	**(19)**	28	**41**	103
Deferred tax expense	**50**	11	**158**	64
Earnings	**130**	84	**406**	383
Earnings per common share – basic *(dollars)*	**0.32**	0.22	**1.02**	1.07
Earnings per common share – diluted *(dollars)*	**0.32**	0.22	**1.02**	1.06
EBITDA[(5)]	**260**	170	**955**	920
Cash flow from operating activities	**285**	196	**801**	800
Cash flow from operating activities per common share – basic *(dollars)*[(5)]	**0.79**	0.58	**2.31**	2.45
Adjusted cash flow from operating activities[(5)]	**280**	164	**878**	777
Adjusted cash flow from operating activities per common share – basic *(dollars)*[(5)]	**0.77**	0.49	**2.53**	2.38
Common share dividends declared	**168**	146	**628**	563
Dividends per common share *(dollars)*	**0.46**	0.44	**1.80**	1.72
Preferred share dividends declared	**13**	10	**48**	31
Capital expenditures	**448**	483	**1,811**	1,412
Total enterprise value *($ billions)*[(5)]	**15**	18	**15**	18

(1) mbpd is thousands of barrels per day.
(2) Revenue volumes are equal to contracted plus interruptible volumes.
(3) Gas Services average revenue volumes converted to mboe/d from MMcf/d at 6:1 ratio.
(4) NGL is natural gas liquids.
(5) Refer to "Non-GAAP and Additional GAAP Measures."

Pembina delivered solid financial and operational results in 2015 with record throughput, EBITDA, operating margin, cash and adjusted cash flow per share, demonstrating the financial resilience of Pembina's fee-for-service business model. Revenue was $4.6 billion and $1.2 billion for the full year and fourth quarter of 2015, compared to $6.1 billion and $1.3 billion in the same periods of 2014, largely a result of the reduced commodity prices that also positively impacted the cost of product purchases. The Company's Conventional Pipelines and Gas Services businesses had an increase in revenue of 22 percent and 27 percent during 2015 compared to 2014. This strong performance resulted from higher volumes and new assets being placed in service and was complemented with the steady results in the Oil Sands and Heavy Oil business. For the full year, net revenue (revenue less cost of

goods sold including product purchases) in 2015 was $1.5 billion, consistent with 2014 and $407 million for the fourth quarter of 2015 as compared to $304 million for the same period in 2014. Net revenue in the Midstream business declined by 22 percent as compared to 2014, largely due to lower commodity prices, and, to a lesser extent, tighter price differentials across most commodities.

Operating expenses were $426 million for the full year in 2015, compared to $401 million during the same period of 2014, with the increase primarily due to the addition of assets, offset by the sale of the Company's non-core trucking subsidiary in its Midstream business recognized in the second quarter of 2014. For the fourth quarter of 2015, operating expenses were $110 million compared to $117 million in the same period of 2014. The quarter-over-quarter decrease in operating expenses was primarily related to timing of integrity spending in the Company's Conventional Pipelines business, which was partially offset by the addition of new assets.

For the year ended December 31, 2015, operating margin was $1,118 million compared to $1,078 million in 2014 primarily due to increases in the Company’s Conventional Pipelines and Gas Services businesses from new assets being placed in service and increased volumes, offset by decreases in the Midstream business. The Oil Sands and Heavy Oil business maintained a reliable contribution to the operating margin with a two percent year-over-year increase. During the fourth quarter of 2015, operating margin was $304 million compared to $195 million in the fourth quarter of 2014 primarily due to increased contribution from the Company's Conventional Pipelines and Midstream businesses. Pembina's Midstream business results in 2014 were impacted by an inventory impairment recognized in the fourth quarter and overall higher cost of product which reduced net revenue.

Depreciation and amortization included in operations during 2015 was $249 million compared to $216 million for the full year of 2014. This increase was primarily due to the year-over-year growth in Pembina's asset base primarily associated with the Company's pipeline expansions, the Vantage pipeline acquisition, in addition to certain useful life adjustments partially offset by decreased amortization in the Midstream business associated with intangibles that were fully depreciated in the prior year and the sale of a non-core trucking related subsidiary. In the fourth quarter of 2015, depreciation and amortization included in operations rose to $73 million compared to $62 million in the same period last year primarily due to new assets in service.

Gross profit for 2015 was $866 million compared to $876 million for 2014 due to increased operating margin offset by a greater increase in depreciation and amortization included in operations. In the fourth quarter of 2015, gross profit was $237 million compared to $144 million in 2014. This quarter-over-quarter increase was a result of increased operating margin partially offset by an increase in depreciation and amortization included in operations and increased unrealized mark-to-market positions of commodity-related derivative financial instruments.

The Company’s general and administrative expenses (excluding corporate depreciation and amortization) remained relatively consistent year over year. For the year ending December 31, 2015, Pembina incurred general and administrative expenses (excluding corporate depreciation and amortization) of $143 million compared to $146 million in 2014. Increased salary, benefit and rent expenses due to increased staff to support new in-service assets were offset by decreased short and long-term incentives. General and administrative expenses (excluding corporate depreciation and amortization) for the fourth quarter of 2015 increased to $36 million as compared to $25 million in the same period of 2014. These increases were primarily due to fluctuations in the share price and the impact on long-term incentive expenses incurred in the quarter as compared to the previous year. Every $1 change in share price is expected to change Pembina's annual share-based incentive expense by approximately $1 million.

Pembina generated EBITDA of $955 million in 2015, a $35 million increase over 2014 EBITDA of $920 million. The increase was largely due to higher operating margin as described above. EBITDA for the fourth quarter of 2015 was $260 million, compared to $170 million for the same period in 2014. This increase was due to higher operating margin partially offset by the quarter-over-quarter increase in general and administrative expenses and other expenses. Other expenses in 2015 include a $13 million de-recognition of costs related to the propane export terminal project and an $8 million loss on the sale of linefill.

Net finance costs totalled $71 million in 2015, a $59 million decrease from $130 million recognized in 2014. This decrease is largely attributable to the change in fair value of the conversion feature on the series E and F convertible debentures ("Conversion Feature"). The Conversion Feature was impacted by the reduction in the principal outstanding, primarily as a result of the October 13, 2015 redemption of the series E convertible debentures, as well as changes in the share price. In 2015, Pembina recognized a gain on revaluation of $40 million, compared to a loss on revaluation of $41 million in 2014. Partially offsetting the decreased costs were interest expenses on loans and borrowings, which increased from $90 million in 2014 to $103 million in 2015, as a result of an increased level of outstanding loans and borrowings to fund growth capital. Net finance costs incurred during the fourth quarter of 2015 were $22 million compared to income of $9 million for the fourth quarter of 2014. This increase is largely attributable to the revaluation of the Conversion Feature identified above.

Income tax expense for 2015 totalled $199 million, including current tax of $41 million and deferred tax of $158 million, compared to income tax expense of $167 million in 2014, including current tax of $103 million and deferred tax of $64 million. Current tax expense for 2015 was lower than the comparable period in 2014 predominantly due to lower taxable income allocations from deferral partnerships in our corporate structure. The increase in deferred tax expense in the current quarter is mainly attributable to an increase in the income tax rate and higher taxable temporary differences between book and tax basis. Alberta's Finance Minister increased the general corporate tax rate from 10 percent to 12 percent, effective July 1, 2015. Income tax expense was $31 million for the fourth quarter of 2015, including current tax recovery of $19 million and deferred tax of $50 million, compared to $39 million, including current tax expense of $28 million and deferred tax of $11 million in the same period of 2014. The decrease in current taxes is attributable to a decrease in taxable income in the fourth quarter of 2015 as compared to the prior year for the same reasons as noted above. The increase in deferred taxes was due to the increase in the income tax rate previously noted.

The Company's earnings increased six percent to $406 million ($1.02 per common share-basic) in 2015 compared to $383 million ($1.07 per common share-basic) in 2014. The increase was most significantly impacted by the increased operating margin and lower net finance costs offset by increased deferred tax and depreciation and amortization expenses in 2015. For the fourth quarter of 2015, the Company’s earnings increased $46 million to $130 million ($0.32 per common share-basic) compared to $84 million ($0.22 per common share-basic) during the fourth quarter of 2014. This was driven by higher operating margin slightly offset by higher net finance costs as well as increased general and administrative and depreciation and amortization expenses recognized in the fourth quarter. The per common share amounts were impacted by the increase in the number of common shares outstanding largely as a result of the dividend reinvestment plan, convertible debenture redemptions and conversions and the November 19, 2015 common share issuance.

Cash flow from operating activities remained relatively consistent year over year. Cash flow from operating activities was $801 million ($2.31 per common share-basic) for the year ended December 31, 2015 compared to $800 million ($2.45 per common share-basic) in 2014. Increased operating margin and a decreased change in non-cash working capital was offset by increased taxes paid in 2015. Cash flow from operating activities increased $89

million in the fourth quarter of 2015 as compared to the same period in 2014. Cash flow from operating activities was $285 million ($0.79 per common share-basic) during the fourth quarter of 2015 compared to $196 million ($0.58 per common share-basic) for the same period in 2014 primarily due to increased operating margin and payments received and deferred.

Adjusted cash flow from operating activities increased $101 million to $878 million ($2.53 per common share-basic) in 2015 as compared to $777 million ($2.38 per common share-basic) during 2014. The increase was primarily due to increased operating margin and lower current tax and share-based compensation expenses offset by increased preferred share dividends declared. Adjusted cash flow from operating activities increased in the fourth quarter of 2015 as compared to 2014. Adjusted cash flow from operating activities was $280 million ($0.77 per common share-basic) in 2015 as compared to $164 million ($0.49 per common share-basic) during the fourth quarter of 2014. The increase is largely due to higher operating margin and lower current tax, offset by an increase in preferred share dividends declared.

Operating Results

	3 Months Ended December 31 (unaudited)				**12 Months Ended December 31**			
	2015		2014		**2015**		2014	
($ millions)	**Revenue**	**Operating Margin[1]**	Revenue	Operating Margin[1]	**Revenue**	**Operating Margin[1]**	Revenue	Operating Margin[1]
Conventional Pipelines	**163**	**109**	146	74	**628**	**401**	513	302
Oil Sands & Heavy Oil	**56**	**36**	52	34	**213**	**139**	204	136
Gas Services	**51[1]**	**33**	46	29	**208[1]**	**144**	165	107
Midstream	**137[1]**	**123**	61[1]	57	**458[1]**	**427**	587[1]	528
Corporate		**3**	(1)	1		**7**		5
Total	**407**	**304**	304	195	**1,507**	**1,118**	1,469	1,078

(1) Net revenue (revenue less cost of goods sold including product purchases). Refer to "Non-GAAP and Additional GAAP Measures."

Conventional Pipelines

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions, except where noted)	**2015**	2014	**2015**	2014
Average revenue volumes *(mbpd)*[1]	**621**	612	**614**	575
Revenue	**163**	146	**628**	513
Operating expenses	**52**	72	**224**	211
Realized loss on commodity-related derivative financial instruments	**2**		**3**	
Operating margin[2]	**109**	74	**401**	302
Depreciation and amortization included in operations	**26**	17	**88**	42
Unrealized (gain) loss on commodity-related derivative financial instruments	**(1)**	2	**(1)**	
Gross profit	**84**	55	**314**	260
Capital expenditures	**227**	232	**932**	628

(1) Revenue volumes are equal to contracted plus interruptible volumes.

(2) Refer to "Non-GAAP and Additional GAAP Measures."

Business Overview

Pembina's Conventional Pipelines business comprises a well-maintained and strategically located 9,100 km pipeline network that transports hydrocarbon products and extends across much of Alberta and parts of B.C., Saskatchewan and North Dakota. The primary objectives of this business are to provide safe, responsible, reliable and cost effective transportation services for customers, pursue opportunities for increased throughput, and maintain and/or grow sustainable operating margin on invested capital by capturing incremental volumes, expanding its pipeline systems, managing revenue and following a disciplined approach to its operating expenses.

Operational Performance

Conventional Pipelines' revenue volumes averaged 614 mbpd for 2015, up seven percent compared to 575 mbpd for 2014. During the fourth quarter of 2015, revenue volumes averaged 621 mbpd, relatively consistent with the same period of 2014, when average revenue volumes were 612 mbpd.

The full-year and fourth-quarter incremental volumes were due to several factors, including:

- The completion of Pembina's Peace and Northern Phase II expansion (the "Phase II Expansion") which includes (i) the crude oil and condensate or the low vapour pressure ("LVP") expansion ("Phase II LVP"), which was placed into service in April 2015 and achieved average monthly revenue volumes of 260 mbpd in December, and (ii) the NGL or the high vapour pressure ("HVP") expansion ("Phase II HVP"), which was placed into service in September 2015 and is now fully commissioned. These expansions allowed for the receipt of higher revenue volumes at Pembina's existing connections and truck terminals;
- The addition of the Vantage pipeline, which began transporting volumes during the latter part of the fourth quarter of 2014;
- Additional connections placed into service on Pembina’s Phase I crude oil, condensate and NGL pipeline expansions (the "Phase I Expansions"), which was placed into service in 2013 and where additional volumes increased over time as new connections were placed into service during 2014; and
- New storage facilities and portions of pipeline associated with the Conventional Pipelines' other expansion programs and connections, including the additional capacity between Kakwa and Fox Creek which Pembina commissioned throughout 2015, also contributed to increased mainline throughput.

To date in 2016, Conventional Pipelines' revenue volumes have been strong where the monthly average revenue volume were in excess of 650 mbpd in January.

Financial Performance

Conventional Pipelines' revenue increased 22 percent in 2015 to $628 million as compared to $513 million for 2014. During the fourth quarter of 2015, revenue was $163 million, an increase of 12 percent over the $146 million of revenue generated in the same quarter of the previous year. The increases were primarily the result of higher volumes associated with the Phase I and Phase II Expansions and new connections being placed into service, as well as revenue associated with the Vantage pipeline acquired in late 2014. In addition, certain toll increases on the Company's various systems were placed into effect in the first half of 2015, also contributed to higher revenue over the year.

Year-over-year operating expenses increased six percent. Operating expenses were $224 million for 2015 compared to $211 million in 2014. Quarter-over-quarter operating expenses decreased 28 percent to $52 million in the fourth quarter of 2015 compared to $72 million in the same period of the prior year. The increase in full-year operating expenses were primarily the result of higher integrity spending to maintain safe operations on Pembina's

gathering systems, operating expenditures associated with the Phase I and Phase II Expansions, as well as the addition of the Vantage pipeline. The lower operating expenses during the fourth quarter of 2015 are primarily the result of shifted timelines in integrity expenses as compared to the same period in 2014 which experienced increased maintenance costs on the Peace and Western systems.

As a result of higher revenue, which was partially offset by an increase in operating expenses, operating margin was $401 million for the full year of 2015 and $109 million for the fourth quarter, 33 percent and 47 percent higher, respectively, than the $302 million and $74 million recorded for the commensurate periods of 2014.

Depreciation and amortization included in operations for the year ended December 31, 2015 was $88 million compared to $42 million for 2014. The increase was largely due to additional in-service assets, as discussed above, including the Vantage pipeline assets acquired in the fourth quarter of 2014. During the fourth quarter of 2015, depreciation and amortization included in operations was $26 million compared to $17 million during the same period of the prior year. The increase for the fourth quarter of 2015 was due to the same factors noted above.

Gross profit was $314 million and $84 million for the year and three months ended December 31, 2015, respectively, compared to $260 million and $55 million during the same periods of 2014. These 21 percent and 53 percent increases were due to higher operating margin which was partially offset by increased depreciation and amortization included in operations, as discussed above.

Capital expenditures totalled $932 million and $227 million for the full year and fourth quarter of 2015, respectively, compared to $628 million and $232 million for the same periods of 2014. The majority of this spending relates to Pembina's pipeline expansion projects which are described below.

New Developments

Pembina has been successful in its commercial efforts to secure the majority of its existing crude oil, NGL and condensate volumes under long-term, firm-service contracts. In aggregate, and including contracted volumes on the Vantage pipeline, Pembina currently has secured 777 mbpd of firm service contracts of crude oil, condensate and NGL across its Conventional Pipelines business once all expansions are placed into service.

Pembina commissioned its Phase II HVP expansion in September 2015. In conjunction with the Phase II LVP portion of the expansion, which was placed into service in April 2015, the entire Phase II Expansion is now in service. In aggregate, the Phase II Expansion has increased the Peace and Northern systems' capacity by 108 mbpd and is underpinned by five to ten-year contracts with substantial take-or-pay commitments from 40 customers.

Pembina continues work on its Phase III pipeline expansions ("Phase III Expansion"), which included bringing into service a 70 km, 16-inch pipeline segment from Kakwa to Simonette in 2015. To date, the Company has completed 30 percent of the overall Phase III Expansion program and estimates the total capital cost to be $2.4 billion.

The Phase III Expansion also includes two pipelines between Fox Creek and Namao, Alberta (one 16-inch diameter and one 24-inch diameter) which would provide an initial combined capacity of 420 mbpd. The Alberta Energy Regulator ("AER") hearing for the project concluded in the fourth quarter of 2015 and Pembina expects to receive an AER written decision near the end of the first quarter of 2016. Subject to regulatory and environmental approvals, the Company continues to anticipate an in-service date of mid-2017.

As part of the Company's plans to expand its gathering presence in Alberta and B.C., Pembina completed its lateral in the Willesden Green area of Alberta during 2015 and is continuing work on its pipeline lateral in the Karr area of Alberta (the "Karr Lateral") which will service production from the Montney resource play and will access the Company's Phase III Expansion. All approvals have been received and construction has now commenced. Generally

due to unseasonably warm weather, the project is tracking above budget; however, the contract largely protects Pembina from a cost risk perspective. Pembina continues to anticipate an in-service date of early 2016.

Pembina is continuing to progress its pipeline infrastructure in northeast B.C. (the "NEBC Expansion"). The NEBC Expansion, which is underpinned by a long-term, cost-of-service agreement with an anchor tenant, will transport condensate and NGL for various producers in the liquids-rich Montney resource play. To date, engineering is 90 percent complete and applications for regulatory and environmental approvals have now been submitted. The NEBC Expansion has an expected capital cost of $220 million and is anticipated to be in service in late 2017, subject to regulatory and environmental approvals.

In early 2016, subsequent to year end, Pembina entered into agreements for the construction of a new pipeline lateral in the Altares area of B.C. (the "Altares Lateral") which will transport production from the Montney resource play and will connect into Pembina's NEBC Expansion for an expected capital cost of $70 million. The Altares Lateral, underpinned by a long-term, cost-of-service agreement, is expected to have initial capacity of approximately 17 mbpd with an in-service date of mid-2017, subject to environmental and regulatory approval.

As announced in February 2015, Pembina continues to progress its expansion of the Vantage pipeline system (the "Vantage Expansion") for an estimated capital cost of $85 million. Supported by a long-term, fee-for-service agreement with a take-or-pay component, the Vantage Expansion will increase the mainline capacity from 40 mbpd to 68 mbpd through the addition of mainline pump stations and the construction of a gathering lateral. All regulatory and environmental approvals have now been received and construction of the gathering lateral is now complete with final commissioning work underway. Construction of the pump stations has now begun, and to date, the project cost is expected to be under budget. Pembina originally expected the Vantage Expansion to be completed in early 2016; however, due to a third-party plant delay, the Company expects to place it into service in the third quarter of 2016, with the contract commencing on August 1, 2016.

Pembina's projects and existing pipeline networks continue to have expansion capacity available to meet the needs of future developments currently under evaluation by its customers. Capacity increases to meet the Company's customers' existing and future demands can often be achieved through simple upgrades, such as adding new pump stations, which can be installed in less than 18 months. For example, adding pump stations to the Phase III Expansion could increase capacity from 420 mbpd to 680 mbpd in the Fox Creek to Edmonton corridor for an aggregate capacity on the Peace and Northern systems of 1,200 mbpd.

Oil Sands & Heavy Oil

	3 Months Ended December 31		12 Months Ended December 31	
($ millions, except where noted)	**2015**	2014	**2015**	2014
Contracted capacity *(mbpd)*	**880**	880	**880**	880
Revenue	**56**	52	**213**	204
Operating expenses	**20**	18	**74**	68
Operating margin[(1)]	**36**	34	**139**	136
Depreciation and amortization included in operations	**4**	4	**17**	17
Gross profit	**32**	30	**122**	119
Capital expenditures	**16**	6	**28**	41

(1) Refer to "Non-GAAP and Additional GAAP Measures."

Business Overview

Pembina plays an important role in supporting Alberta's oil sands and heavy oil industry. Pembina is the sole transporter of synthetic crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Limited's Horizon Oil Sands operation (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Nipisi and Mitsue pipelines, which provide transportation for producers operating in the Pelican Lake and Peace River heavy oil regions of Alberta, and the Cheecham Lateral, which transports synthetic crude to oil sands producers operating southeast of Fort McMurray, Alberta. The Oil Sands & Heavy Oil business operates approximately 1,650 km of pipeline and has approximately 880 mbpd of contracted capacity, inclusive of the Horizon Expansion (see New Developments), under long-term, extendible contracts, which provide for the flow-through of eligible operating expenses to customers. As a result, operating margin from this business is primarily driven by the amount of capital invested and is predominantly not sensitive to fluctuations in operating expenses or actual throughput.

Financial Performance

In 2015, Oil Sands & Heavy Oil revenue was $213 million, an increase of four percent from 2014 revenue of $204 million, largely due to increased flow-through operating expenses. For the fourth quarter of 2015, revenue was $56 million, compared to $52 million in the fourth quarter of last year.

Operating expenses were $74 million for the year ended December 31, 2015, an increase of nine percent compared to $68 million for 2014. Operating expenses were $20 million during the fourth quarter of 2014 compared to $18 million for the same period of the prior year. Increased operating costs, which are eligible to be recovered under Pembina's contractual arrangements with its customers, were largely attributable to scheduled integrity work and other repair and maintenance activities, partially offset by reduced power and labour costs.

Operating margin was $139 million and $36 million for the year and three months ended December 31, 2015 compared to $136 million and $34 million, respectively, generated during the same periods of 2014 for the reasons described above.

Depreciation and amortization included in operations during the year and fourth quarter ended December 31, 2015 was $17 million and $4 million, consistent with the same periods of 2014.

Gross profit was $122 million and $32 million for the twelve and three months ended December 31, 2015, respectively, compared to $119 million and $30 million during the same periods of 2014 as a result of the factors discussed above.

Full-year capital expenditures within the Oil Sands & Heavy Oil business totalled $28 million in 2015 compared to $41 million for the same period in 2014. The spending in 2015 relates to the Horizon Expansion (defined below), the Cheecham expansion and a new connection, as compared to the costs incurred in 2014 associated with the Cornerstone pipeline project, the majority of which was recovered.

New Developments

In June 2015, Pembina announced that it will expand its existing Horizon Pipeline System (the "Horizon Expansion"), underpinned by a fixed return, long-term agreement, for an estimated capital cost of $125 million. The Horizon Expansion will increase the pipeline's capacity up to 250 mbpd, which will be achieved by upgrading mainline pump stations and other facility modifications, as required. Engineering work is now complete, most regulatory and environmental approvals have been received and civil construction is underway. The Horizon Expansion is expected to be in service mid-2016.

Gas Services

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions, except where noted)	**2015**	2014	**2015**	2014
Average revenue volumes *(MMcf/d)* net to Pembina(1)(2)	**606**	584	**656**	515
Average revenue volumes *(mboe/d)*(3) net to Pembina(1)	**103**	97	**110**	86
Revenue	**52**	46	**209**	165
Cost of goods sold, including product purchases	**1**		**1**	
Net revenue(4)	**51**	46	**208**	165
Operating expenses	**18**	17	**64**	58
Operating margin(4)	**33**	29	**144**	107
Depreciation and amortization included in operations	**9**	7	**33**	22
Gross profit	**24**	22	**111**	85
Capital expenditures	**33**	79	**242**	295

(1) Revenue volumes are equal to contracted plus interruptible volumes.
(2) Volumes at the Musreau Gas Plant exclude deep cut processing as those volumes are counted when they are processed through the shallow cut portion of the plant.
(3) Average revenue volumes converted to mboe/d from MMcf/d at a 6:1 ratio.
(4) Refer to "Non-GAAP and Additional GAAP Measures."

Business Overview

Pembina's operations include a growing natural gas gathering and processing business, which is strategically positioned in active and emerging NGL-rich plays in the WCSB and is integrated with Pembina's other businesses. Gas Services provides gas gathering, compression, and both shallow and deep cut processing services for its customers, primarily on a fee-for-service basis under long-term contracts. The NGL extracted through this business' facilities are transported by Pembina's Conventional Pipelines business on its Peace pipeline system with the capability for a portion of the volumes to be further processed at Pembina's fractionation facilities. Operating assets within Gas Services include:

- Pembina's Cutbank complex (the "Cutbank Complex") – located near Grande Prairie, Alberta, this facility includes four shallow cut sweet gas processing plants (the Cutbank gas plant, the Musreau gas plant ("Musreau I"), the Musreau II facility ("Musreau II") and the Kakwa gas plant) and one deep cut gas processing plant (the Musreau deep cut facility). In total, the Cutbank Complex has 525 MMcf/d of processing capacity (468 MMcf/d net to Pembina) and 205 MMcf/d of deep cut extraction capacity (net to Pembina). The Cutbank Complex also includes approximately 350 km of gathering pipelines.

- Pembina's Saturn complex (the "Saturn Complex") – located near Hinton, Alberta, includes two identical 200 MMcf/d deep cut gas processing plants (the "Saturn I" and "Saturn II" facilities) for a total of 400 MMcf/d of deep cut extraction capacity, as well as approximately 25 km of gathering pipelines.
- Pembina's Resthaven facility ("Resthaven") – located near Grande Cache, Alberta, this facility includes 200 MMcf/d (134 MMcf/d net to Pembina) of integrated shallow and deep cut processing capacity, as well as approximately 30 km of gathering pipelines.
- Pembina's Saskatchewan Ethane Extraction Plant ("SEEP") – located to service the southeast Saskatchewan Bakken region, this facility has a deep cut processing capacity that could reach 60 MMcf/d with ethane fractionation capabilities up to 4,500 bpd and 104 km of ethane delivery pipeline.

Operational Performance

Within Pembina's Gas Services business, on a full year basis, average revenue volumes, net to Pembina, increased more than 27 percent to 656 MMcf/d compared to 515 MMcf/d in 2014. Higher volumes for full year 2015 compared to full year 2014 were mainly due to the addition of Musreau II, which was placed into service in December 2014, and the Saturn II and SEEP facilities, which were placed into service in August 2015, as well as the addition of the Resthaven facility, which was placed into service in October 2014. Partially offsetting the improved results was an unscheduled outage at Resthaven in the fourth quarter of 2015, which was placed back into shallow cut operating service in February 2016 and is expected to operate at full recovery by April. During the fourth quarter of 2015, volumes have increased by four percent compared to the same period in the prior year. Higher volumes during the fourth quarter of 2015 compared to the same period last year were primarily due to the same reasons as described above. Overall, Pembina continues to benefit from producer activity focused on liquids-rich natural gas in the areas surrounding its assets, although increased throughput was partially offset by lower interruptible service volumes on deep cut facilities due to lower NGL pricing during the twelve months ended December 31, 2015 compared to the same period in the previous year.

Financial Performance

Gas Services generated revenue of $209 million in 2015 compared to $165 million recognized in 2014. During the fourth quarter of 2015, $52 million in revenue was generated, up from $46 million in the same period of the prior year. These 27 and 13 percent increases, respectively, primarily reflect the new facilities that were placed into service in this business, partially offset by the unscheduled outage at Resthaven and lower interruptible volumes, as discussed above.

Full-year operating expenses totalled $64 million, up from $58 million during the prior year. For the fourth quarter of 2015, Gas Services incurred operating expenses of $18 million compared to $17 million during the fourth quarter of 2014. The full year and quarterly increases during 2015 were mainly due to additional operating costs associated with the new facilities that were placed in service, partially offset by lower power costs and operational efficiencies gained at the Cutbank Complex with the addition of Musreau II and, at the Saturn Complex, with the addition of Saturn II.

Gas Services realized operating margin of $144 million in 2015 and $33 million in the fourth quarter of 2015 compared to $107 million and $29 million during the same periods of the previous year. The increases over the fourth quarter and full year 2015 compared to the same periods in 2014 were primarily due to the addition of the new facilities placed into service, as discussed above.

Depreciation and amortization included in operations for the full year of 2015 totalled $33 million compared to $22 million in 2014, with the increase primarily attributable to the addition of new assets as discussed above. For

the fourth quarter of 2015, depreciation and amortization included in operations totalled $9 million compared to $7 million in the same period of 2014, for the same reasons noted above.

On a full year basis, gross profit was $111 million in 2015 compared to $85 million during 2014. For the three months ended December 31, 2015, gross profit was $24 million compared to $22 million in the same period of 2014. These increases reflect higher operating margin, partially offset by slightly higher depreciation and amortization included in operations during the 2015 period compared to the same period of 2014, primarily resulting from new assets being placed into service.

For the year ended December 31, 2015, capital expenditures within Gas Services totalled $242 million compared to $295 million during 2014. Capital spending in 2015 has been largely to finalize construction at SEEP and Saturn II, as well as to advance construction at Musreau III and the Resthaven Expansion (defined below). In 2014, capital spending was directed towards Resthaven, Musreau II and Saturn II.

New Developments

During the fourth quarter and full year 2015, Pembina continued to advance its growth projects as well as place new assets into service within the Gas Services business.

As previously announced in November, Pembina will construct, own and operate a new 100 MMcf/d shallow cut gas plant ("Duvernay I") in close proximity to the Company's Fox Creek Terminal for an expected capital cost, including supporting infrastructure, of $125 million. Duvernay I, which is underpinned by a substantial take-or-pay agreement with a large, diversified, investment-grade customer, will leverage the design of Pembina's Musreau II and the Musreau III facility ("Musreau III"). Duvernay I will be the first large-scale gas processing plant designed specifically for the Duvernay and creates a new growth platform for the Company. As part of this development, NGL production from Duvernay I will be transported on Pembina's Peace Pipeline under a long-term, take-or-pay agreement as well as fractionated under another agreement at the Company's Redwater site. Pembina has now received AER approval for the gas plant and is currently awaiting approval for the associated pipeline in relation to this project. The Company anticipates bringing Duvernay I in service in the second half of 2017, subject to the remaining environmental and regulatory approvals.

In late August, Pembina commissioned its Saturn II and SEEP facilities. Saturn II was placed into service ahead of schedule and under budget and SEEP was placed into service on time and also under budget. With the Saturn II and SEEP facilities in service, Pembina's Gas Services' capacity has increased 26 percent from 1.0 to 1.3 bcf/d.

Plant construction of Pembina's 100 MMcf/d expansion of Resthaven (the "Resthaven Expansion") is ongoing. The overall project is approximately 80 percent complete and has an estimated capital cost of $105 million. In September, Pembina placed the gathering pipeline associated with the Resthaven Expansion into service. In advance of the Resthaven Expansion being placed into service, the newly commissioned pipeline is able to provide additional gas volumes for the Company's existing Resthaven facility. Pembina expects the Resthaven Expansion, which is underpinned by a fee-for-service agreement with a substantial take-or-pay component, to be in service in mid-2016.

The Company continues to advance its 100 MMcf/d shallow cut Musreau III facility, which is being built adjacent to Pembina's existing Musreau I and Musreau II facilities. Regulatory and environmental approvals have been received and the overall project is approximately 75 percent complete and is tracking under budget from the original expected cost of $105 million. Pembina anticipates bringing Musreau III, which is underpinned by long-term, take-or-pay agreements, on-stream in mid-2016.

Once the facilities under development described above are in service, Pembina expects Gas Services' processing capacity to reach approximately 1.6 bcf/d, including deep cut capacity of 900 MMcf/d. The volumes from Pembina's existing assets and those under development will be processed largely on a contracted, fee-for-service basis and results in condensate and NGL to be transported for additional toll revenue on Pembina's Conventional Pipelines.

Midstream

	3 Months Ended December 31 [1] (unaudited)		12 Months Ended December 31 [1]	
($ millions, except where noted)	**2015**	2014	**2015**	2014
NGL sales volumes *(mbpd)*	**123**	130	**116**	119
Revenue	**1,000**	1,052	**3,690**	5,259
Cost of goods sold, including product purchases	**863**	991	**3,232**	4,672
Net revenue[2]	**137**	61	**458**	587
Operating expenses	**23**	12	**71**	69
Realized gain on commodity-related derivative financial instruments	**(9)**	(8)	**(40)**	(10)
Operating margin[2]	**123**	57	**427**	528
Depreciation and amortization included in operations	**31**	34	**107**	135
Unrealized (gain) loss on commodity-related derivative financial instruments	**(5)**	(13)	**4**	(14)
Gross profit	**97**	36	**316**	407
Capital expenditures	**169**	135	**566**	390

(1) Share of loss of investment in equity accounted investees not included in these results.

(2) Refer to "Non-GAAP and Additional GAAP Measures."

Business Overview

Pembina offers customers a comprehensive suite of midstream products and services through its Midstream business as follows:

- Crude oil midstream assets include 17 truck terminals (three of which are capable of emulsion treatment and water disposal) and terminalling at a downstream hub location at the Pembina Nexus Terminal ("PNT"), which features storage and terminal connectivity. PNT includes 21 inbound pipeline connections and 13 outbound pipeline connections to approximately 1.2 mmbpd of crude oil and condensate supply connected to the terminal and 310 mbbls of surface storage in and around the Edmonton and Fort Saskatchewan, Alberta areas.
- NGL midstream includes two NGL operating systems – Redwater West and Empress East.
    - The Redwater West NGL system ("Redwater West") includes the 750 MMcf/d (322.5 MMcf/d net to Pembina) Younger extraction and fractionation facility in B.C.; a 73 mbpd NGL fractionator and 7.3 mmbbls of finished product cavern storage at Redwater, Alberta; and third-party fractionation capacity in Fort Saskatchewan, Alberta. Redwater West purchases NGL mix from various natural gas and NGL producers and fractionates it into finished products for further distribution and sale. Also located at the Redwater site is Pembina's rail-based terminal which services Pembina's proprietary and customer needs for importing and exporting NGL products.
    - The Empress East NGL system ("Empress East") includes 2.4 bcf/d of capacity in the straddle plants at Empress, Alberta; 20 mbpd of fractionation capacity and 1.1 mmbbls of cavern storage in Sarnia, Ontario; and 5.3 mmbbls of hydrocarbon storage at Corunna, Ontario. Empress East extracts NGL mix

from natural gas at the Empress straddle plants and purchases NGL mix from other producers/suppliers. Ethane and condensate are generally fractionated out of the NGL mix at Empress and sold into Alberta markets. The remaining NGL mix is transported by pipeline to Sarnia, Ontario for further fractionation, distribution and sale.

The financial performance of Pembina's Midstream business can be affected by seasonal demands for products and other market factors. In NGL midstream, propane inventory generally builds over the second and third quarters of the year and is sold in the fourth quarter and the first quarter of the following year during the winter heating season. Condensate, butane and ethane are generally sold rateably throughout the year. See "Risk Factors" in this MD&A for more information.

Operational & Financial Performance

In the Midstream business, revenue was $3.7 billion and $1.0 billion in the year ended and fourth quarter of 2015, respectively, as compared to $5.3 billion and $1.1 billion in the same periods of 2014 which was impacted by lower commodity prices which also positively impacted the cost of product purchases. In the Midstream business, Pembina generated net revenue (revenue less costs of goods sold including product purchases) of $458 million and $137 million in the year ended and fourth quarter of 2015 compared to $587 million and $61 million in the same periods of 2014. The 22 percent decrease in net revenue for the year ended 2015 was primarily due to lower commodity prices (particularly the weaker year-over-year propane and butane prices), tighter price differentials across all commodities in 2015 and the sale of the Company's non-core trucking-related subsidiary recognized in the second quarter of 2014, partially offset by revenue from new assets being placed in service. Pembina's Midstream business results in 2014 were impacted by an inventory impairment recognized in the fourth quarter and overall higher cost of product which reduced net revenue.

Operating expenses during the full year and fourth quarter of 2015 were $71 million and $23 million, respectively, compared to $69 million and $12 million in the comparable periods of 2014 representing a three and 92 percent increase over 2014. The full-year and fourth-quarter increases were largely due to new assets being placed into service. Full year operating expenses were also partially offset by the Company's sale of its non-core trucking-related subsidiary recognized in the second quarter of 2014.

Operating margin was $427 million during the full year and $123 million during the fourth quarter of 2015 compared to $528 million and $57 million in the respective periods of 2014. The full-year decrease from 2014 was primarily due to lower net revenue due to lower commodity prices, as discussed above. The quarter-over-quarter increase is primarily due to the same reasons that impacted quarter-over-quarter net revenue, as discussed above.

The Company's crude oil midstream operating margin for the year ended December 31, 2015 totalled $170 million compared to $188 million during the prior year. Crude oil midstream operating margin was $37 million in the fourth quarter of 2015, relatively consistent with the $36 million generated in the same period of 2014. The decrease on a full year basis was largely due to the factors which impacted net revenue, particularly lower crude oil prices and narrower differentials, as well as a crude-by-rail marketing contract expiry, which was partially offset by a realized gain on commodity-related derivative financial instruments of $21 million.

For the year ended December 31, 2015, operating margin for NGL midstream was $257 million compared to $340 million during 2014. Operating margin for Pembina's NGL midstream activities was $86 million for the fourth quarter of 2015 compared to $21 million for the fourth quarter of 2014. The full-year decrease was largely a result of lower margins due to significantly weaker commodity prices, especially for propane and butane, where propane and butane market prices declined in excess of 60 percent during the full year of 2015 compared to the same

period in 2014. The increase in operating margin during the fourth quarter of 2015 compared to the same period in 2014 was a result of an inventory write-down recognized in the fourth quarter of 2014 and higher quarter-over-quarter sales margins, as discussed above.

Full year depreciation and amortization included in operations for Pembina's Midstream business totalled $107 million, down from $135 million in 2014. Depreciation and amortization included in operations during the fourth quarter of 2015 totalled $31 million compared to $34 million during the fourth quarter of 2014. These decreases are primarily due to decreased amortization expenses associated with intangible assets which became fully depreciated in the prior year.

For the full year and three months ended December 31, 2015, gross profit in this business was $316 million and $97 million, respectively, compared to $407 million and $36 million during the same periods in 2014. The year-to-date decrease was due to the same factors which impacted net revenue, operating expenses, operating margin and depreciation and amortization included in operations, as noted above.

For the year ended December 31, 2015, capital expenditures within the Midstream business totalled $566 million compared to $390 million during 2014. Capital spending in this business in 2015 was primarily directed towards the development of Pembina's second and third fractionators ("RFS II" and "RFS III"), as well as NGL storage caverns and associated infrastructure. Capital was also spent to progress above ground storage at the Edmonton North Terminal ("ENT") and the preliminary work for the Company's proposed Canadian Diluent Hub ("CDH"). Capital expenditures in 2014 were primarily related to development of RFS II at the Company's Redwater site, above ground storage at ENT and completion of the Cynthia Full Service Terminal.

New Developments

In December 2015, Pembina completed the construction of RFS II, its second 73 mbpd ethane-plus fractionator at the Company's Redwater site. RFS II is anticipated to be completed generally on budget from the estimated $415 million capital cost and is currently being commissioned with an expectation of being on stream by the end of March 2016 (one quarter later than originally expected).

Pembina is also advancing RFS III, its third fractionator at Redwater for an estimated capital cost of $400 million, which will have propane-plus capacity of 55 mbpd. Regulatory and environmental approval has been received and over 50 percent of all long-lead items have arrived onsite with construction of pilings and foundations now complete. Pembina expects RFS III to be in service in the third quarter of 2017 and, once complete, Pembina's Redwater site will be the largest fractionation facility in Canada with a total of 210 mbpd of fractionation capacity.

Pembina is progressing work to provide terminalling services for the North West Redwater Partnership ("North West") with respect to North West's planned refinery for an expected capital cost of $180 million. Underpinned by a long-term fixed return agreement and a long-term NGL mix purchase and sale agreement related to RFS III, the terminalling services include truck and rail loading, storage, as well as handling and processing equipment for a variety of products delivered from North West. Detailed engineering and procurement is 40 percent complete with substantially all long-lead mechanical items ordered. Subject to regulatory and environmental approvals, the storage services are expected to be in service in early 2017, with the remaining facilities to be phased in with final completion expected by late 2017.

Pembina continues to advance a detailed class three engineering estimate associated with the proposed CDH. Subject to further regulatory and environmental approvals, Pembina anticipates phasing in additional connections to various condensate delivery systems with a view to achieving full connectivity and service offerings at CDH in mid-2017.

At ENT, Pembina has now completed construction of three above ground storage tanks, which have a total working capacity of 550 mbbls, with the electrical work nearing completion and the mechanical integration continuing to be progressed. The project is estimated to have a capital cost of $75 million and is tracking on budget and on schedule to be in service in mid-2016.

At its NGL storage and terminalling facilities in Corunna, Ontario, Pembina is progressing a number of initiatives including the installation of a new brine pond, upgrades to its rail rack and construction of a new propane truck rack to meet increased demand for services. The propane racks were completed in December 2015, with remaining construction underway for the brine pond and rail racks. The remainder of the project is expected to be in service in early 2016.

Pembina remains committed to providing market access solutions for its customers by developing a North American west coast propane export terminal. Pembina is currently evaluating multiple potential west coast sites; however, the Company has decided that it will no longer pursue the previously announced Portland, Oregon location.

Other Non-Operating Expenses

Pension Liability

Pembina maintains a defined contribution plan and non-contributory defined benefit pension plans covering employees and retirees. The defined benefit plans include a funded registered plan for all qualified employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. At the end of 2015, the pension plans carried a net obligation of $22 million compared to a net obligation of $19 million at the end of 2014. At December 31, 2015, plan obligations amounted to $168 million (2014: $157 million) compared to plan assets of $146 million (2014: $138 million). In 2015, the pension plans' expense was $11 million (2014: $8 million). Pembina's contributions to the pension plans totaled $9 million in 2015 (2014: $10 million).

Financing Activity

On February 2, 2015, Pembina closed an offering of $600 million of senior unsecured medium-term notes. The offering was conducted in two tranches: gross proceeds of $450 million in senior unsecured medium-term notes, Series 5, having a fixed coupon of 3.54 percent per annum, paid semi-annually, and which mature on February 3, 2025 and gross proceeds of $150 million through the re-opening of Pembina's Series 3, 4.75 percent medium-term notes, which mature April 30, 2043.

On April 10, 2015, Pembina closed a $225 million offering of nine million cumulative redeemable rate reset class A preferred shares, Series 9 (the "Series 9 Preferred Shares") at a price of $25.00 per share. The Series 9 Preferred Shares began trading on the Toronto Stock Exchange on April 10, 2015 under the symbol PPL.PR.I.

On June 16, 2015, Pembina closed an offering of $600 million of senior unsecured medium-term notes. The offering was conducted in two tranches: gross proceeds of $500 million in senior unsecured medium-term notes, Series 6, having a fixed coupon of 4.24 percent per annum, paid semi-annually, and which mature on June 15, 2027 and gross proceeds of $100 million through the re-opening of Pembina's Series 3, 4.75 percent medium-term notes, which mature April 30, 2043.

On November 19, 2015, Pembina closed a bought deal offering of 15.3 million common shares at a price of $30.00 per share for aggregate gross proceeds of $460 million.

Subsequent to year end, on January 15, 2016, Pembina closed a $170 million offering of 6.8 million cumulative redeemable minimum rate reset class A preferred shares, Series 11 (the "Series 11 Preferred Shares") at a price of $25.00 per share. The Series 11 Preferred Shares began trading on the Toronto Stock Exchange on January 15, 2016 under the symbol PPL.PR.K.

Liquidity & Capital Resources

($ millions)	**December 31, 2015**	December 31, 2014
Working capital[(1)]	**37**	(22)
Variable rate debt[(2)]		
Bank debt	**25**	510
Total variable rate debt outstanding (average of 2.3%)	**25**	510
Fixed rate debt[(2)]		
Senior unsecured notes	**467**	467
Senior unsecured medium-term notes	**2,700**	1,500
Total fixed rate debt outstanding (average of 4.5%)	**3,167**	1,967
Convertible debentures[(2)]	**149**	410
Finance lease liability	**12**	10
Total debt and debentures outstanding	**3,353**	2,897
Cash and unutilized debt facilities	**2,031**	1,073

(1) As at December 31, 2015, working capital includes $5 million (December 31, 2014: $4 million) associated with the current portion of loans and borrowings.

(2) Face value.

Pembina anticipates cash flow from operating activities will be more than sufficient to meet its short-term operating obligations and fund its targeted dividend level. Global economic conditions have had a downward effect on commodity pricing; however, Pembina's business model is largely comprised of cash flow derived from fee-for-service arrangements, which continued to help mitigate the impact of the market downturn. Pembina believes that its reliable cash flow, limited commodity exposure (with the exception of portions of its Midstream business) and strong credit profile will enable it to preserve its financial strength into the foreseeable future, particularly as the Company brings its over $5.3 billion suite of long-term, primarily fee-for-service-based projects into service throughout the 2016 to late-2017 timeframe. In the short-term, Pembina expects to source funds required for capital projects from cash and cash equivalents, its credit facility, the DRIP and accessing the debt and equity capital markets, as required. Based on its successful access to financing in the debt and equity markets over the past several years and recently, Pembina believes it should continue to have access to funds, despite the recent weakened industry and commodity price environment. Refer to "Risk Factors – Additional Financing and Capital Resources" for more information. Management remains satisfied that the leverage employed in Pembina's capital structure, of which a significant portion is funding assets under construction which will not contribute to the results until they come into service, is sufficient and appropriate given the characteristics and operations of the underlying asset base.

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

On April 16, 2015, Pembina increased the available funds under its revolving unsecured credit facility to $2 billion and retained a $750 million accordion feature. Pembina's credit facilities at December 31, 2015 consisted of an unsecured $2 billion (December 31, 2014: $1.5 billion) revolving credit facility which matures in May, 2020 and an operating facility of $30 million (December 31, 2014: $30 million) due in May, 2016, which is expected to be renewed on an annual basis. Borrowings on the revolving credit facility and the operating facility bear interest at

prime lending rates plus nil to 1.25 percent (December 31, 2014: nil to 1.25 percent) or Bankers' Acceptances rates plus 1.00 percent to 2.25 percent (December 31, 2014: 1.00 to 2.25 percent). Margins on the credit facilities are based on the credit rating of Pembina's senior unsecured debt. There are no repayments due over the term of these facilities. As at December 31, 2015, Pembina had $2.0 billion (December 31, 2014: $1.1 billion) of cash and unutilized debt facilities. At December 31, 2015, Pembina had loans and borrowings (excluding amortization, letters of credit and finance lease liabilities) of $3.2 billion (December 31, 2014: $2.5 billion). Pembina's senior loans and borrowings to total consolidated capitalization at December 31, 2015 was 30 percent (December 31, 2014: 27 percent). Pembina also had an additional $23 million (December 31, 2014: $38 million) in letters of credit issued in a separate credit facility. Pembina is required to meet certain specific and customary affirmative and negative financial covenants under its senior unsecured notes, medium-term notes and revolving credit and operating facilities including a requirement to maintain certain financial ratios. Pembina is also subject to customary restrictions on its operations and activities under its notes and facilities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets. Pembina's financial covenants include the following:

Debt Instrument	Financial Covenant	Ratio
Senior unsecured medium-term notes	Funded Debt to Capitalization	Maximum 70%
Revolving unsecured credit facility	Debt to Capital	Maximum 65%
	EBITDA[1] to senior interest coverage	Minimum 2.5:1.0

(1) Refer to "Non-GAAP and Additional GAAP Measures."

In addition to the table above, Pembina has additional covenants on its unsecured debt. Pembina was in compliance with all covenants under its notes and facilities as at the year ended December 31, 2015 (December 31, 2014 – in compliance).

On October 13, 2015, Pembina redeemed the entire outstanding principal amount of the Company's Series C 5.75 percent convertible unsecured subordinated debentures (the "Series C Debentures") and the Series E 5.75 percent convertible unsecured subordinated debentures (the "Series E Debentures" and together with the Series C Debentures the "Debentures") through the issuance of common shares.

Credit Ratings

The following information with respect to Pembina's credit ratings is provided as it relates to Pembina's financing costs and liquidity. Specifically, credit ratings affect Pembina's ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current ratings on Pembina's debt by its rating agencies, particularly a downgrade below investment grade ratings, could adversely affect Pembina's cost of financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect Pembina's ability, and the associated costs, to enter into normal course derivative or hedging transactions. Credit ratings are intended to provide investors with an independent measure of credit quality of any issues of securities. The credit ratings assigned by the rating agencies are not recommendations to purchase, hold or sell the securities nor do the ratings comment on market price or suitability for a particular investor. Any rating may not remain in effect for a given period of time or may be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

DBRS rates Pembina's senior unsecured notes and senior unsecured medium-term notes 'BBB' and Series 1, Series 3, Series 5, Series 7, Series 9 and Series 11 Preferred Shares Pfd-3. S&P's long-term corporate credit rating on Pembina is 'BBB' and its rating of the Class A preferred shares, Series 1, Series 3, Series 5, Series 7, Series 9 and Series 11 is P-3.

Capital Expenditures

	3 Months Ended December 31 (Unaudited)		12 Months Ended December 31	
($ millions)	**2015**	2014	**2015**	2014
Development capital				
Conventional Pipelines	**227**	232	**932**	628
Oil Sands & Heavy Oil	**16**	6	**28**	41
Gas Services	**33**	79	**242**	295
Midstream	**169**	135	**566**	390
Corporate/other projects	**3**	31	**43**	58
Total development capital	**448**	483	**1,811**	1,412

During the full year and fourth quarter of 2015, capital expenditures were $1,811 million and $448 million, respectively, compared to $1,412 million and $483 million in the same periods of 2014.

The majority of the capital expenditures in the full year and fourth quarter of 2015 were incurred in Pembina's Conventional Pipelines, Midstream, and Gas Services businesses. Conventional Pipelines' capital expenditures were primarily incurred to complete the Phase II Expansion, as well as progress the Phase III Expansion. Gas Services' capital was deployed to complete SEEP and the Saturn II facility, as well as progress the Musreau III facility and the Resthaven Expansion. Midstream's capital expenditures were primarily directed towards RFS II and RFS III, cavern development, above ground storage and related infrastructure at the Redwater facility.

Contractual Obligations at December 31, 2015

($ millions)	Payments Due By Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**After 5 years**
Operating and finance leases[(1)]	925	97	209	195	424
Loans and borrowings[(2)]	5,284	144	287	561	4,292
Convertible debentures[(2)]	178	10	168		
Construction commitments[(3)]	1,878	1,392	152	29	305
Total contractual obligations[(2)(4)]	8,265	1,643	816	785	5,021

(1) Includes office space, vehicles and over 3,500 rail car leases supporting future propane transportation in the Midstream business. The Company has sublet office space up to 2027 and has contracted sub-lease payments for a potential of $105 million over the term.

(2) Excluding deferred financing costs. Including interest payments on senior unsecured notes.

(3) Excluding significant projects that are awaiting regulatory or land approval.

(4) Pembina enters into product purchase agreements to secure future operations in the Midstream business. Product purchase agreements range from one to 10 years and involve the purchase of NGL products from producers. Purchase price of NGL is dependent on the current market prices. Volumes and prices for these contracts cannot be reasonably determined and therefore has not been included in the contractual obligations schedule. Assuming product is available, Pembina has secured between 51 mbpd and 72 mpbd each year up to and including 2025.

Pembina is, subject to certain conditions, contractually committed to the construction and operation of the Phase III Expansion, the Resthaven Expansion, RFS II, RFS III, the NEBC Expansion, the Horizon Expansion, the Vantage Expansion, the Musreau III facility, North West, Duvernay I, as well as certain pipeline connections and laterals and select caverns at the Company's Redwater site. Additional commitments exist in relation to assets recently brought into service and other corporate infrastructure. See "Forward-Looking Statements & Information" and "Liquidity & Capital Resources."

Dividends

Common Share Dividends

Common share dividends are payable if, as, and when declared by Pembina's Board of Directors. The amount and frequency of dividends declared and payable is at the discretion of the Board of Directors, which considers earnings, cash flow, capital requirements, the financial condition of Pembina and other relevant factors.

On May 5, 2015, Pembina increased its monthly dividend on its common shares by 5.2 percent from $0.145 per common share per month (or $1.74 annualized) to $0.1525 per common share per month (or $1.83 annualized) effective as of the May 25, 2015 record date.

Preferred Share Dividends

The holders of Pembina's class A preferred shares are entitled to receive fixed cumulative dividends payable quarterly on the 1st day of March, June, September and December, if, as and when declared by the Board of Directors of Pembina, for the initial fixed rate period for each series of preferred share.

DRIP

Throughout 2015, eligible Pembina shareholders had the opportunity to receive, by reinvesting the cash dividends declared payable by Pembina on their common shares, either (i) additional common shares at a discounted subscription price equal to 95 percent of the Average Market Price (as defined in the DRIP), pursuant to the "Dividend Reinvestment Component" of the DRIP, or (ii) a premium cash payment (the "Premium Dividend™")[1] equal to 102 percent of the amount of reinvested dividends, pursuant to the "Premium Dividend™ Component" of the DRIP.

Participation in the DRIP for the year ended December 31, 2015 was 60 percent (December 31, 2014 – 57 percent) of common shares outstanding. Proceeds for the fourth quarter of 2015 totalled $99 million and $373 million for the full year, compared to $83 million and $321 million for the respective periods in 2014.

On January 7, 2016 Pembina made amendments to the Company's Premium Dividend™ and DRIP to allow the Board of Directors to set the discount under the regular dividend reinvestment component of the DRIP at a rate of up to 5 percent to the Average Market Price. Effective the same date, the Board of Directors set the current discount rate at 3 percent to the Average Market Price and reduced the premium to the regular cash dividend paid to the Company's shareholders who participate in the Premium Dividend™ component from 102 percent to 101 percent.

Related Party Transactions

For the year ended December 31, 2015, Pembina had no transactions with related parties as defined in IAS 24 – *Related Party Disclosures*, except those pertaining to contributions to Pembina's defined benefit pension plan and transactions with key management personnel in the ordinary course of their employment or directorship agreements.

[1] ™ denotes trademark of Canaccord Genuity Corp.

Critical Accounting Estimates

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on the circumstances and estimates at the date of the financial statements and affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following judgment and estimation uncertainties are those management considers material to the Company's financial statements:

Judgments

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make judgments about future possible events. The assumptions with respect to determining the fair value of property, plant and equipment and intangible assets acquired generally require the most judgment.

(ii) Depreciation and amortization

Depreciation and amortization of property, plant and equipment and intangible assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Company. Among other factors, these judgments are based on industry standards and historical experience.

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are internal and external factors that would indicate that an asset, or cash generating unit ("CGU") is impaired. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

Estimates

(i) Business Combinations

Estimates of future cash flows, forecast prices, interest rates and discount rates are made in determining the fair value of assets acquired and liabilities assumed. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets and goodwill in the purchase price equation. Future earnings can be affected as a result of changes in future depreciation and amortization, asset or goodwill impairment.

(ii) Provisions and contingencies

Provisions recognized are based on management's judgment about assessing contingent assets and liabilities and timing, scope and amount of assets and liabilities. Management uses judgment in determining the likelihood of realization of contingent assets and liabilities to determine the outcome of contingencies.

Based on the long-term nature of the decommissioning provision, the most significant uncertainties in estimating the provision are the discount rates used, the costs that will be incurred and the timing of when these costs will occur.

(iii) Deferred taxes

The calculation of the deferred tax asset or liability is based on assumptions about the timing of many taxable events and the enacted or substantively enacted rates anticipated to be applicable to income in the years in which temporary differences are expected to be realized or reversed.

(iv) Depreciation and amortization

Estimated useful lives of property, plant and equipment and intangible assets are based on management's assumptions and estimates of the physical useful lives of the assets, the economic lives, which may be associated with the reserve lives and commodity type of the production area, in addition to the estimated residual value.

(v) Impairment tests

Impairment tests include management's best estimates of future cash flows and discount rates.

Changes in Accounting Policies

New standards adopted in 2015

The following amendments to existing standards issued by the International Accounting Standards Board ("IASB") were adopted as of January 1, 2015, without any material impact to Pembina's Financial Statements: IAS 24 *Related Party Disclosures* and IFRS 8 *Operating Segments*.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning on or after January 1, 2016. These standards have not been applied in preparing these Financial Statements. Those which may be relevant to Pembina are described below:

IFRS 9 *Financial Instruments* (2014) is effective January 1, 2018 and is available for early adoption. The new standard is a single financial instrument accounting standard addressing: classification and measurement (Phase I), impairment (Phase II) and hedge accounting (Phase III). The Company is currently evaluating the impact that the standard will have on its results of operations and financial position and is assessing when adoption will occur.

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue; at a point in time or over time. The Company intends to adopt IFRS 15 for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

IFRS 16 *Leases* is effective for annual periods beginning on or after January 1, 2019. The new standard results in substantially all lessee leases being recorded on the statement of financial position. The Company intends to adopt IFRS 16 for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

Controls and Procedures

Disclosure Controls and Procedures

Pembina maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in Pembina's filings is reviewed, recognized and disclosed accurately and in the appropriate time period.

An evaluation, as of December 31, 2015, of the effectiveness of the design and operation of Pembina's disclosure controls and procedures, as defined in Rule 13a – 15(e) and 15d – 15(e) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), was carried out by management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on that evaluation, the CEO and CFO have concluded that the design and operation of Pembina's disclosure controls and procedures were effective as at December 31, 2015 to ensure that material information relating to the Company is made known to the CEO and CFO by others, particularly during the period during which the annual filings are being prepared.

It should be noted that while the CEO and CFO believe that Pembina's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that Pembina's disclosure controls and procedures will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control over Financial Reporting

Pembina maintains internal control over financial reporting which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a – 15(f) and 15d – 15(f) under the Exchange Act and under NI 52-109.

Management, including the CEO and the CFO, has conducted an evaluation of Pembina's internal control over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management's assessment as at December 31, 2015, the CEO and CFO have concluded that Pembina's internal control over financial reporting is effective.

Further, there has been no change in the Company's internal control over financial reporting that occurred during the year covered by this Annual Report that has materially affected, or are reasonably likely to materially affect, Pembina's internal control over financial reporting.

The effectiveness of internal control over financial reporting as of December 31, 2015 was audited by KPMG LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Public Accounting Firm, which is included in this 2015 Annual Report to Shareholders.

Due to its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of Pembina's financial statements would be prevented or detected. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate.

Risk Factors

Pembina's value proposition is based on balancing economic benefits against risk. Where possible, Pembina will reduce risk. In addition to an objective of contractually eliminating its business risk by contracting firm service commitments, Pembina has a formal Risk Management Program including policies, procedures and systems designed to mitigate any residual risks. The risks that may affect the business and operation of Pembina and its operating subsidiaries are described at a high level within this MD&A and more fully within Pembina's Annual Information Form ("AIF"), an electronic copy of which is available at www.pembina.com or on Pembina's SEDAR profile at www.sedar.com and which is filed under Form 40-F on Pembina's EDGAR profile at www.sec.gov. Further, additional discussion about counterparty risk, market risk, liquidity risk and additional information on financial risk management can be found in Note 23 to the Consolidated Financial Statements.

Shareholders and prospective investors should carefully consider these risk factors before investing in Pembina's securities, as each of these risks may negatively affect the trading price of Pembina's securities, the amount of dividends paid to shareholders and the ability of Pembina to fund its debt obligations, including debt obligations under its outstanding convertible debentures and any other debt securities that Pembina may issue from time to time.

Operational Risks

Operational risks include: pipeline leaks; the breakdown or failure of equipment, pipelines and facilities, information systems or processes; the compromise of information and control systems; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); spills at truck terminals and hubs; spills associated with the loading and unloading of harmful substances onto rail cars and trucks; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; operational disruptions or apportionment on third-party systems or refineries which may prevent the full utilization of Pembina's facilities and pipelines; and catastrophic events including but not limited to natural disasters, fires, floods, explosions, train derailments, earthquakes, acts of terrorists and saboteurs, and other similar events, many of which are beyond the control of Pembina. Pembina may also be exposed from time to time, to additional operational risks not stated in the immediately preceding sentences. The occurrence or continuance of any of these events could increase the cost of operating Pembina's assets or reduce revenue, thereby impacting earnings. Additionally, Pembina's facilities and pipelines are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply or distribution or transmission systems could significantly affect ongoing operations. In addition, a significant increase in the cost of power or fuel could have a materially negative effect on the level of profit realized in cases where the relevant contracts do not provide for recovery of such costs.

Commodity Price Risk

Pembina's Midstream business includes activities related to product storage, terminalling, and hub services. These activities expose Pembina to certain risks including that Pembina may experience volatility in revenue due to fluctuations in commodity prices. Primarily, Pembina enters into contracts to purchase and sell crude oil and NGL at floating market prices. The prices of products that are marketed by Pembina are subject to volatility as a result of such factors as seasonal demand changes, extreme weather conditions, general economic conditions, changes in commodity markets and other factors. Pembina manages its risk exposure by balancing purchases and sales to lock-in margins. Notwithstanding Pembina's management of price and quality risk, marketing margins for commodities can vary and have varied significantly from period to period. This variability could have an adverse

effect on the results of Pembina's commercial Midstream business and its overall results of operations. To assist in effectively smoothing that variability inherent in this business, Midstream is investing in assets that have a fee-based revenue component, and is looking to expand this area going forward.

The Midstream business is also exposed to possible price declines between the time Pembina purchases NGL feedstock and sells NGL products, and to decreasing frac spreads. Frac spread is the difference between the sale prices of NGL products and the cost of NGL sourced from natural gas and acquired at natural gas-related prices. Frac spreads can change significantly from period to period depending on the relationship between crude oil and natural gas prices (the "frac spread ratio"), absolute commodity prices, and changes in the Canadian to U.S. dollar foreign exchange rate. There is also a differential between NGL product prices and crude oil prices which can change margins realized for midstream products separate from frac spread ratio changes. The amount of profit or loss made on the extraction portion of the NGL midstream business will generally increase or decrease with frac spreads. This exposure could result in variability of cash flow generated by the NGL midstream business, which could affect Pembina and the cash dividends of Pembina.

Pembina responds to commodity price risk by using an active Risk Management Program to fix revenues to pay for a minimum of 50 percent of the fixed committed term natural gas supply costs. Pembina’s fixed committed natural gas supply can vary from year to year based on industry dynamics. Additionally Pembina's Midstream business is also exposed to variability in quality, time and location differentials and the Company may also utilize financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price risk as a result of these activities. The Company does not trade financial instruments for speculative purposes.

Reserve Replacement, Throughput and Product Demand

Pembina's Conventional Pipeline tariff revenue is based upon a variety of tolling arrangements, including fee-for-service contracts, cost-of-service agreements and market-based tolls. As a result, certain pipeline tariff revenue is heavily dependent upon throughput levels of crude oil, NGL and condensate. Future throughput on Pembina's crude oil and NGL pipelines and replacement of oil and gas reserves in the service areas will be dependent upon the activities of producers operating in those areas as they relate to exploiting their existing reserve bases and exploring for and developing additional reserves, and technological improvements leading to increased recovery rates. Without reserve additions, or expansion of the service areas, throughput on such pipelines would decline over time as reserves are depleted. As oil and gas reserves are depleted, production costs may increase relative to the value of the remaining reserves in place, causing producers to shut-in production or seek out lower cost alternatives for transportation. If the level of tariffs collected by Pembina decreases as a result, cash flow available for dividends to shareholders and to service obligations under Pembina's debt securities and other debt obligations could be adversely affected.

Over the long term, Pembina's business will depend, in part, on the level of demand for crude oil, condensate, NGL and natural gas in the markets served by the crude oil and NGL pipelines and gas processing and gathering infrastructure in which the Company has an interest. Global economic events continue to have a substantial downward effect on the prices of such products and Pembina cannot predict the impact of future economic conditions on the energy and petrochemical industries or future demand for and prices of natural gas, crude oil, condensate and NGL. As lower commodity prices reduce drilling activity, the supply growth that has been fuelling the growth in pipeline infrastructure could slow down. These factors could negatively affect pipeline and processing capacity value as transportation and processing capacity becomes more abundant. Future prices of these products are determined by supply and demand factors, including weather and general economic conditions

as well as economic, political and other conditions in other oil and natural gas regions, all of which are beyond Pembina's control.

The volumes of natural gas processed through Pembina's gas processing assets and of NGL and other products transported in its pipelines depend on production of natural gas in the areas serviced by the gas processing business and associated pipelines. Without reserve additions, production will decline over time as reserves are depleted and production costs may rise. Producers may shut-in production at lower product prices or higher production costs. Producers in the areas serviced by the business may not be successful in exploring for and developing additional reserves or achieving technological improvements to increase recovery rates, and the gas plants and the pipelines may not be able to maintain existing volumes of throughput. Commodity prices may not remain at a level which encourages producers to explore for and develop additional reserves or produce existing marginal reserves. Given the ongoing adverse global economic conditions, the prices of these products continue to be depressed and the risks that producers will not seek reserves additions has heightened. Lower production volumes will also increase the competition for natural gas supply at gas processing plants which could result in higher shrinkage premiums being paid to natural gas producers.

The rate and timing of production from proven natural gas reserves tied into the gas plants is at the discretion of the producers and is subject to regulatory constraints. The producers have no obligation to produce natural gas from these lands. Pembina's gas processing assets are connected to various third-party trunk line systems. Operational disruptions or apportionment on those third-party systems may prevent the full utilization of the business.

Over the long-term, Pembina's business will depend, in part, on the level of demand for NGL and natural gas in the geographic areas in which deliveries are made by pipelines and the ability and willingness of shippers having access or rights to utilize the pipelines to supply such demand. Pembina cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, governmental regulation or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for natural gas and NGL.

Reputation

Reputational risk is the potential for market or company specific events that could result in the deterioration of Pembina's reputation with key stakeholders. The potential for harming Pembina's corporate reputation exists in every business decision and all risks can have an impact on reputation, which in turn can negatively impact Pembina's business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity, regulatory and legal risks, among others, must all be managed effectively to safeguard Pembina's reputation. Pembina's reputation could also be impacted by the actions and activities of other companies operating in the energy industry, particularly other energy infrastructure providers, over which it has no control. In particular, Pembina's reputation could be impacted by negative publicity related to pipeline incidents, unpopular expansion plans or new projects, and due to opposition from organizations opposed to energy, oil sands and pipeline development and particularly shipment of production from oil sands regions. Negative impacts from a compromised reputation could include revenue loss, reduction in customer base, delays in regulatory approvals on growth projects, and decreased value of Pembina's securities.

Environmental Costs and Liabilities

Pembina's operations, facilities and petroleum product shipments are subject to extensive national, regional and local environmental, health and safety laws and regulations governing, among other things, discharges to air, land

and water, the handling and storage of petroleum products and hazardous materials, waste disposal, the protection of employee health, safety and the environment, and the investigation and remediation of contamination. Pembina's facilities could experience incidents, malfunctions or other unplanned events that result in spills or emissions in excess of permitted levels and result in personal injury, fines, penalties or other sanctions and property damage. Pembina could also incur liability in the future for environmental contamination associated with past and present activities and properties. The facilities and pipelines must maintain a number of environmental and other permits from various governmental authorities in order to operate, and these facilities are subject to inspection from time to time. Failure to maintain compliance with these requirements could result in operational interruptions, fines or penalties, or the need to install potentially costly pollution control technology. Licenses and permits must be renewed from time to time and there is no guarantee that the license will be renewed on the same or similar conditions. There can be no assurance that we will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. Further, if at any time regulatory authorities deem any one of Pembina's pipelines or facilities unsafe or not in compliance with applicable laws, they may order it shut down.

While Pembina believes its current operations are in compliance with all applicable significant environmental and safety regulations, there can be no assurance that substantial costs or liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, claims for damages to persons or property resulting from Pembina's operations, and the discovery of pre-existing environmental liabilities in relation to any of the Company's existing or future properties or operations, could result in significant costs and liabilities to Pembina. In addition, the costs of environmental liabilities in relation to spill sites of which Pembina is currently aware could be greater than the Company currently anticipates, and any such differences could be substantial. If Pembina is not able to recover the resulting costs or increased costs through insurance or increased tariffs, cash flow available to pay dividends to shareholders and to service obligations under Pembina's debt securities and other debt obligations could be adversely affected.

While Pembina maintains insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered within fixed time periods, which typically range from 72 hours to 30 days. Although the Company believes it has adequate leak detection systems in place to monitor a significant spill of product, if Pembina is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline systems and other assets at the end of their economic life, and these abandonment costs may be substantial.

The proceeds of the disposition of certain assets, including, in respect of certain pipeline systems, line fill, may be available to offset abandonment costs. While Pembina estimates future abandonment costs, actual costs may differ. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund additional reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for dividends to shareholders and to service obligations under Pembina's debt securities and other debt obligations.

Pembina has complied with the National Energy Board ("NEB") requirements on its NEB-regulated pipelines for the creation of set-aside and collection mechanisms required under the applicable NEB rules and regulations regarding the abandonment of its pipeline systems and assets. Pembina will continue to monitor any regulatory changes. Pembina owned and/or operated rate-regulated pipelines account for 841 km of the total infrastructure in the Conventional Pipelines business.

Completion and Timing of Expansion Projects

The successful completion of Pembina's growth and expansion projects is dependent on a number of factors outside of Pembina's control, including the impact of general economic, business and market conditions, availability of capital at attractive rates, receipt of regulatory approvals, reaching long-term commercial arrangements with customers in respect of certain portions of the expansions, construction schedules and costs that may change depending on supply, demand and/or inflation, labour, materials and equipment availability, contractor non-performance, weather conditions, and cost of engineering services. There is no certainty, nor can Pembina provide any assurance, that necessary regulatory approvals will be received on terms that maintain the expected return on investment associated with a specific projects, or at all, or that satisfactory commercial arrangements with customers will be reached where needed on a timely basis or at all, or that third parties will comply with contractual obligations in a timely manner. Factors such as special interest group opposition, Aboriginal, landowner and other stakeholder consultation requirements, changes in shipper support over time, and changes to the legislative or regulatory framework could all have an impact on contractual and regulatory milestones being accomplished. As a result, the cost estimates and completion dates for Pembina's major projects can change during different stages of the project. Early stage projects face additional challenges including securing leases, easements, rights-of-way, permits and/or licenses from landowners or governmental authorities allowing access for such purposes, as well as Aboriginal consultation requirements. Accordingly, actual costs and timing estimates may vary from initial estimates and these differences can be significant, and certain projects may not proceed as planned, or at all. Further, there is a risk that maintenance will be required more often than currently planned or that significant maintenance capital projects could arise that were not previously anticipated.

Under most of Pembina's construction and operation agreements, the Company is obligated to construct the facilities regardless of delays and cost increases and Pembina bears the risk for any cost overruns, and future agreements with customers entered into with respect to expansions may contain similar conditions. While Pembina is not currently aware of any significant undisclosed cost overruns at the date hereof, any such cost overruns in the future may adversely affect the economics of particular projects, as well as Pembina's business operations and financial results, and could reduce Pembina's expected return on investment which, in turn, could reduce the level of cash available for dividends and to service obligations under Pembina's debt securities and other debt obligations.

Operating and Capital Costs

Operating and capital costs of Pembina's business may vary considerably from current and forecast values and rates and represent significant components of the cost of providing service. In general, as equipment ages, costs associated with such equipment may increase over time. Dividends may be reduced if significant increases in operating or capital costs are incurred and this may also impact the ability of Pembina to service obligations under its debt securities and other debt obligations.

Although operating costs are to be recaptured through the tariffs charged on natural gas volumes processed and oil and NGL transported, respectively, to the extent such charges escalate, producers may seek lower cost alternatives or stop production of their natural gas and/or crude oil.

Additional Financing and Capital Resources

The timing and amount of Pembina's capital expenditures, and the ability of the Company to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that Pembina pays. Future acquisitions, expansions of Pembina's assets, and other capital expenditures and the repayment or refinancing of existing debt as it becomes due will be financed from sources such as cash generated from operations, the issuance of additional shares or other securities (including debt securities) of Pembina, and borrowings. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Pembina, or at all, to make additional investments, fund future expansions or make other required capital expenditures. As a result of the ongoing weakness of the global economy, Pembina may have restricted access to capital and increased borrowing costs. Although Pembina's business and asset base have not changed materially, the ability of Pembina to raise capital is dependent upon, among other factors, the overall state of capital markets and investor demand for investments in the energy industry and Pembina's securities in particular. To the extent that external sources of capital, including the issuance of additional shares or other securities or the availability of additional credit facilities, become limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of Pembina to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, may be impaired. To the extent Pembina is required to use cash flow to finance capital expenditures or acquisitions or to repay existing debt as it becomes due, the level of dividends payable may be reduced.

Debt Service

At the end of 2015, Pembina had exposure to floating interest rates on $25 million in debt, which was subsequently repaid in January 2016. Debt exposure is managed by using derivative financial instruments.

Variations in interest rates and scheduled principal repayments, if required, under the terms of Pembina's banking agreements, could result in significant changes in the amounts required to be applied to debt service before payment of any dividends. Certain covenants in Pembina's agreements with the lenders may also limit payments and dividends paid by Pembina.

Pembina and its subsidiaries are permitted to borrow funds to finance the purchase of pipelines and other energy infrastructure assets, to fund capital expenditures and other financial obligations or expenditures in respect of those assets and for working capital purposes. Amounts paid in respect of interest and principal on debt incurred in respect of those assets reduce the amount of cash flow available for common share dividends. Variations in interest rates and scheduled principal repayments for which Pembina may not be able to refinance at favourable rates, or at all, could result in significant changes in the amount required to be applied to service debt, which could have detrimental effects on the amount of cash available for common share dividends. Pembina, on a consolidated basis, is also required to meet certain financial covenants under the credit facilities and is subject to customary restrictions on its operations and activities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets.

The lenders under Pembina's unsecured credit facilities have also been provided with guarantees and subordination agreements. If Pembina becomes unable to pay its debt service charges or otherwise commits an

event of default such as bankruptcy, payments to all of the lenders will rank in priority to dividends and payments to holders of convertible debentures.

Although Pembina believes the existing credit facilities are sufficient for immediate requirements, there can be no assurance that the amount will be adequate for the future financial obligations of Pembina or that additional funds will be able to be obtained on terms favourable to Pembina or at all.

Credit Ratings

Rating agencies regularly evaluate Pembina, basing their ratings of its long-term and short-term debt on a number of factors. This includes Pembina's financial strength as well as factors not entirely within its control, including conditions affecting the industry in which Pembina operates generally and the wider state of the economy. There can be no assurance that one or more of Pembina's credit ratings will not be downgraded.

Pembina's borrowing costs and ability to raise funds are directly impacted by its credit ratings. Credit ratings may be important to suppliers or counterparties when they seek to engage in certain transactions. A credit rating downgrade could potentially impair Pembina's ability to enter into arrangements with suppliers or counterparties, to engage in certain transactions, and could limit Pembina's access to private and public credit markets and increase the costs of borrowing under its existing credit facilities. A downgrade could also limit Pembina's access to debt and preferred share markets and increase its cost of borrowing.

The occurrence of a downgrade in Pembina's credit ratings could adversely affect its ability to execute portions of its business strategy and could have a material adverse effect on its liquidity, results of operations and capital position.

Changes in Legislation

There can be no assurance that income tax laws, regulatory and environmental laws or policies and government incentive programs relating to the pipeline or oil and natural gas industry, will not be changed in a manner which adversely affects Pembina or its Shareholders or other securityholders.

Foreign Exchange Risk

Pembina's commodity-related transactions, rail car leases, Vantage pipeline tariff cash flows and some of its capital expenditure commitments may be subject to currency risk, primarily arising from the denomination of specific earnings, cash flows and expenditure commitments in U.S. dollars. Pembina partially mitigates this risk using an active Risk Management Program to exchange foreign currency for domestic currency at a fixed rate.

Interest Rate Risk

Pembina has floating interest rate debt which subjects the Company to interest rate risk. Pembina responds to this risk under the active Risk Management Program by entering into financial derivative contracts to fix interest rates.

Cyber Security

Pembina's infrastructure, technologies and data are becoming increasingly integrated, which creates a risk that failure of one system could lead to failure of another system. The risk of a cyber-attack targeting the industry is also increasing. A breach in the security or failure of the Company’s information technology could result in operational outages, delays, damage to assets or the environment, reputational harm, lost profits, lost data and other adverse outcomes. The Company’s security strategy focuses on information technology security risk management which includes continuous monitoring, threat detection and an incident response protocol.

Selected Quarterly Operating Information

(mbpd unless stated otherwise)	**2015**				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Average volume								
Conventional Pipelines revenue volumes[1]	**621**	**600**	**603**	**633**	612	564	573	553
Oil Sands & Heavy Oil contracted capacity	**880**	**880**	**880**	**880**	880	880	880	880
Gas Services average revenue volumes *(mboe/d)* net to Pembina[1][2]	**103**	**115**	**108**	**113**	97	71	87	88
Midstream NGL sales volumes	**123**	**109**	**104**	**129**	130	107	105	133
Total	**1,727**	**1,704**	**1,695**	**1,755**	1,719	1,622	1,645	1,654

(1) Revenue volumes are equal to contracted plus interruptible volumes.

(2) Gas Services average revenue volumes converted to mboe/d from MMcf/d at 6:1 ratio.

Selected Quarterly Financial Information

	2015				2014			
($ millions, except where noted)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**1,242**	**1,026**	**1,213**	**1,154**	1,259	1,445	1,606	1,759
Operating expenses	**110**	**111**	**96**	**109**	117	98	91	95
Cost of goods sold, including product purchases	**835**	**652**	**862**	**779**	955	1,087	1,246	1,312
Realized (gain) loss on commodity-related derivative financial instruments	**(7)**	**(8)**	**(4)**	**(18)**	(8)	(4)		2
Operating margin[1]	**304**	**271**	**259**	**284**	195	264	269	350
Depreciation and amortization included in operations	**73**	**67**	**55**	**54**	62	51	51	52
Unrealized (gain) loss on commodity-related derivative financial instruments	**(6)**	**3**	**4**	**2**	(11)	(3)	4	(4)
Gross profit	**237**	**201**	**200**	**228**	144	216	214	302
EBITDA[1]	**260**	**229**	**226**	**240**	170	199	235	316
Cash flow from operating activities	**285**	**187**	**209**	**120**	196	188	155	261
Cash flow from operating activities per common share – basic *(dollars)*[1]	**0.79**	**0.54**	**0.62**	**0.35**	0.58	0.57	0.48	0.82
Adjusted cash flow from operating activities[1]	**280**	**209**	**176**	**213**	164	158	191	264
Adjusted cash flow from operating activities per common share – basic *(dollars)*[1]	**0.77**	**0.60**	**0.51**	**0.63**	0.49	0.48	0.59	0.83
Earnings for the period	**130**	**113**	**43**	**120**	84	75	77	147
Earnings per common share – basic *(dollars)*	**0.32**	**0.29**	**0.09**	**0.32**	0.22	0.20	0.21	0.44
Earnings per common share – diluted *(dollars)*	**0.32**	**0.29**	**0.09**	**0.32**	0.22	0.20	0.21	0.41
Common shares outstanding *(millions)*:								
Weighted average – basic	**363**	**345**	**342**	**339**	335	327	323	319
Weighted average – diluted	**363**	**345**	**343**	**340**	336	329	325	340
End of period	**373**	**350**	**343**	**340**	338	329	325	321
Common share dividends declared	**168**	**158**	**154**	**148**	146	143	140	134
Common dividends declared per share *(dollars)*	**0.4575**	**0.4575**	**0.450**	**0.435**	0.435	0.435	0.430	0.420
Preferred share dividends declared	**13**	**14**	**11**	**10**	10	8	7	6

[1] Refer to "Non-GAAP and Additional GAAP Measures."

During the periods in the prior table, Pembina's results were impacted by the following factors and trends:

- Increased oil production during 2014 and relatively stable production in 2015 from customers operating in the Montney, Cardium and Deep Basin Cretaceous formations of west central Alberta, which resulted in increased service offerings, new connections and capacity expansions in these areas;
- Increased liquids-rich natural gas production in 2014 and relatively stable production in 2015 from producers in the WCSB (Deep Basin, Montney and emerging Duvernay shale plays), which resulted in increased gas gathering and processing at the Company's Gas Services assets, additional associated NGL and condensate volumes transported on its pipelines and expansion of its fractionation capacity;
- New assets being placed into service and the acquisition of the Vantage pipeline;

- A strong propane market in North America throughout the first half of 2014 and an overall significantly weaker commodity market (especially the weaker propane and butane market) during the latter part of 2014 and in 2015;
- Increased common shares outstanding and common share dividends due to: the DRIP, debenture conversions, common share issuance, increasing the common share dividend rate, the acquisition of the Vantage pipeline and SEEP; and
- Increased preferred share dividends due to additional preferred shares issued.

Selected Annual Financial Information

($ millions, except where noted)	**2015**	2014	2013
Revenue	**4,635**	6,069	5,006
Earnings	**406**	383	351
Per common share – basic *(dollars)*	**1.02**	1.07	1.12
Per common share – diluted *(dollars)*	**1.02**	1.06	1.12
Total assets	**12,936**	11,262	9,142
Long-term financial liabilities[1]	**3,908**	3,428	2,454
Declared dividends per common share *($ per share)*	**1.80**	1.72	1.65
Preferred share dividends declared	**48**	31	5

(1) Includes loans and borrowings, convertible debentures, long-term derivative financial instruments, deferred revenue, provisions and employee benefits, share-based payments and other.

Additional Information

Additional information about Pembina filed with Canadian and U.S. securities commissions, including quarterly and annual reports, AIFs (filed with the U.S. Securities and Exchange Commission under Form 40-F), Management Information Circulars and financial statements can be found online at www.sedar.com, www.sec.gov and through Pembina's website at www.pembina.com.

Non-GAAP and Additional GAAP Measures

Throughout this MD&A, Pembina has used the following terms that are not defined by GAAP but are used by management to evaluate the performance of Pembina and its businesses. Since non-GAAP and additional GAAP measures do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies, securities regulations require that non-GAAP and additional GAAP measures are clearly defined, qualified and reconciled to their nearest GAAP measure. Except as otherwise indicated, these non-GAAP and additional GAAP measures are calculated and disclosed on a consistent basis from period to period. Specific adjusting items may only be relevant in certain periods.

The intent of non-GAAP and additional GAAP measures is to provide additional useful information to investors and analysts though the measures do not have any standardized meaning under IFRS. The measures should not, therefore, be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate these non-GAAP and additional GAAP measures differently.

Investors should be cautioned that net revenue, EBITDA, adjusted cash flow from operating activities, cash flow from operating activities per common share, adjusted cash flow from operating activities per common share, operating margin and total enterprise value should not be construed as alternatives to earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as indicators of Pembina's performance.

Net revenue

Net revenue is a non-GAAP financial measure which is defined as total revenue less cost of goods sold including product purchases. Management believes that net revenue provides investors with a single measure to indicate the margin on sales before non-product operating expenses that is comparable between periods. Management utilizes net revenue to compare consecutive results, particularly in the Midstream business, to aggregate revenue generated by each of the Company's businesses and to set comparable objectives.

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions)	**2015**	2014	**2015**	2014
Revenue	**1,242**	1,259	**4,635**	6,069
Cost of goods sold, including product purchases	**835**	955	**3,128**	4,600
Net revenue	**407**	304	**1,507**	1,469

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

EBITDA is a non-GAAP measure and is calculated as results from operating activities plus share of profit (loss) from equity accounted investees (before tax, depreciation and amortization) plus depreciation and amortization (included in operations and general and administrative expense) and unrealized gains or losses on commodity-related derivative financial instruments. The exclusion of unrealized gains or losses on commodity-related derivative financial instruments eliminates the non-cash impact.

Management believes that EBITDA provides useful information to investors as it is an important indicator of an issuer's ability to generate liquidity through cash flow from operating activities. EBITDA is also used by investors and analysts for assessing financial performance and for the purpose of valuing an issuer, including calculating financial and leverage ratios. Management utilizes EBITDA to set objectives and as a key performance indicator of the Company's success.

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except per share amounts)	**2015**	2014	**2015**	2014
Results from operating activities	**185**	114	**685**	702
Share of profit from equity accounted investees (before tax, depreciation and amortization)	**2**	2	**4**	6
Depreciation and amortization	**79**	65	**263**	226
Unrealized (gain) loss on commodity-related derivative financial instruments	**(6)**	(11)	**3**	(14)
EBITDA	**260**	170	**955**	920
EBITDA per common share – basic *(dollars)*	**0.72**	0.51	**2.75**	2.82

Adjusted cash flow from operating activities, cash flow from operating activities per common share and adjusted cash flow from operating activities per common share

Adjusted cash flow from operating activities is a non-GAAP measure which is defined as cash flow from operating activities plus the change in non-cash operating working capital, adjusting for current tax and share-based payment expenses, and deducting preferred share dividends declared. Adjusted cash flow from operating activities excludes preferred share dividends because they are not attributable to common shareholders. The calculation has been modified to include current tax and share-based payment expense as it allows management to better assess the obligations discussed below. Management believes that adjusted cash flow from operating activities provides

comparable information to investors for assessing financial performance during each reporting period. Management utilizes adjusted cash flow from operating activities to set objectives and as a key performance indicator of the Company's ability to meet interest obligations, dividend payments and other commitments. Per common share amounts are calculated by dividing cash flow from operating activities, or adjusted cash flow from operating activities, as applicable, by the weighted average number of common shares outstanding.

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions, except per share amounts)	**2015**	2014	**2015**	2014
Cash flow from operating activities	**285**	196	**801**	800
Add (deduct):				
Change in non-cash operating working capital	**(16)**	(14)	**11**	33
Current tax recovery (expenses)	**19**	(28)	**(41)**	(103)
Taxes paid	**7**	11	**137**	81
Accrued share-based payments	**(2)**	9	**(10)**	(33)
Share-based payments			**28**	30
Preferred share dividends declared	**(13)**	(10)	**(48)**	(31)
Adjusted cash flow from operating activities	**280**	164	**878**	777
Cash flow from operating activities per common share – basic *(dollars)*	**0.79**	0.58	**2.31**	2.45
Adjusted cash flow from operating activities per common share – basic *(dollars)*	**0.77**	0.49	**2.53**	2.38

Operating margin

Operating margin is an additional GAAP measure which is defined as gross profit before depreciation and amortization included in operations and unrealized gain/loss on commodity-related derivative financial instruments. Management believes that operating margin provides useful information to investors for assessing the financial performance of the Company's operations. Management utilizes operating margin in setting objectives and views it as a key performance indicator of the Company's success.

Reconciliation of operating margin to gross profit:

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions)	**2015**	2014	**2015**	2014
Revenue	**1,242**	1,259	**4,635**	6,069
Cost of sales (excluding depreciation and amortization included in operations)				
Operating expenses	**110**	117	**426**	401
Cost of goods sold, including product purchases	**835**	955	**3,128**	4,600
Realized (gain) loss on commodity-related derivative financial instruments	**(7)**	8	**(37)**	10
Operating margin	**304**	195	**1,118**	1,078
Depreciation and amortization included in operations	**73**	62	**249**	216
Unrealized (gain) loss on commodity-related derivative financial instruments	**(6)**	(11)	**3**	(14)
Gross profit	**237**	144	**866**	876

Total enterprise value

Total enterprise value is a non-GAAP measure which is calculated by aggregating the market value of common shares, preferred shares and convertible debentures at a specific date plus senior debt less cash and cash equivalents. Management believes that total enterprise value provides useful information to investors to assess the overall market value of the Company and as an input to calculate financial ratios. Management utilizes total enterprise value to assess Pembina's growth.

($ millions, except where noted)	**February 22, 2016**	December 31, 2015	December 31, 2014
Shares outstanding *(millions of shares)*	**376**	373	338
Closing share price *(dollars)*	**33.46**	30.15	42.34
Market value			
Common shares	**12,578**	11,258	14,308
Series 1 Preferred Shares (PPL.PR.A)	**133**[1]	167[2]	244[3]
Series 3 Preferred Shares (PPL.PR.C)	**85**[4]	109[5]	150[6]
Series 5 Preferred Shares (PPL.PR.E)	**160**[7]	194[8]	257[9]
Series 7 Preferred Shares (PPL.PR.G)	**151**[10]	193[11]	250[12]
Series 9 Preferred Shares (PPL.PR.I)	**168**[13]	199[14]	
Series 11 Preferred Shares (PPL.PR.K)	**163**[15]		
5.75% convertible debentures (PPL.DB.C)			347[16]
5.75% convertible debentures (PPL.DB.E)			37[17]
5.75% convertible debentures (PPL.DB.F)	**178**[18]	166[19]	208[20]
Market capitalization	**13,616**	12,286	15,801
Senior debt	**3,167**	3,192	2,477
Cash and cash equivalents	**(41)**	(26)	(53)
Total enterprise value[21]	**16,742**	15,452	18,255

(1) 10 million preferred shares outstanding at a market price of $13.30 at February 22, 2016.
(2) 10 million preferred shares outstanding at a market price of $16.70 at December 31, 2015.
(3) 10 million preferred shares outstanding at a market price of $24.40 at December 31, 2014.
(4) 10 million preferred shares outstanding at a market price of $14.20 at February 22, 2016.
(5) 10 million preferred shares outstanding at a market price of $18.10 at December 31, 2015.
(6) 6 million preferred shares outstanding at a market price of $24.97 at December 31, 2014.
(7) 10 million preferred shares outstanding at a market price of $16.01 at February 22, 2016.
(8) 10 million preferred shares outstanding at a market price of $19.40 at December 31, 2015.
(9) 10 million preferred shares outstanding at a market price of $25.70 at December 31, 2014.
(10) 10 million preferred shares outstanding at a market price of $15.10 at February 22, 2016.
(11) 10 million preferred shares outstanding at a market price of $19.30 at December 31, 2015.
(12) 10 million preferred shares outstanding at a market price of $25.02 at December 31, 2014.
(13) 9 million preferred shares outstanding at a market price of $18.68 at February 22, 2016.
(14) 9 million preferred shares outstanding at a market price of $22.09 at December 31, 2015.
(15) 6.8 million preferred shares outstanding at a market price of $23.95 at February 22, 2016.
(16) $236 million principal amount outstanding at a market price of $147.00 at December 31, 2014 and with a conversion price of $28.55.
(17) $23 million principal amount outstanding at a market price of $160.00 at December 31, 2014 and with a conversion price of $24.94.
(18) $149 million principal amount outstanding at a market price of $119.00 at February 22, 2016 and with a conversion price of $29.53.
(19) $149 million principal amount outstanding at a market price of $112.00 at December 31, 2015 and with a conversion price of $29.53.
(20) $150 million principal amount outstanding at a market price of $138.50 at December 31, 2014 and with a conversion price of $29.53.
(21) Refer to "Non-GAAP and Additional GAAP Measures."

The following is a list of abbreviation that may be used in this MD&A:

Measurement

bpd	barrels per day
mbpd	thousands of barrels per day
mbbls	thousands of barrels
mmbbls	millions of barrels
mboe/d	thousands of barrels of oil equivalent per day
MMcf/d	millions of cubic feet per day
bcf/d	billions of cubic feet per day
km	kilometre

Other

B.C.	British Columbia
DRIP	Premium Dividend™ and Dividend Reinvestment Plan
IFRS	International Financial Reporting Standards
NGL	Natural gas liquids
U.S.	United States
WCSB	Western Canadian Sedimentary Basin
deep cut	Ethane-plus capacity extraction gas processing capabilities
shallow cut	Sweet gas processing with propane and/or condensate-plus extraction capabilities

Forward-Looking Statements & Information

In the interest of providing Pembina's securityholders and potential investors with information regarding Pembina, including management's assessment of the Company's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "could", "believe", "plan", "intend", "target", "view", "maintain", "schedule", "objective", "strategy", "likely", "potential", "outlook", "goal", "would", and similar expressions suggesting future events or future performance.

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

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

- the future levels of cash dividends that Pembina intends to pay to its shareholders, the dividend payment date and the tax treatment thereof;
- planning, construction, capital expenditure estimates, schedules, regulatory and environmental applications and anticipated approvals, expected capacity, incremental volumes, in-service dates, rights, activities, benefits and operations with respect to new construction of, or expansions on existing, pipelines, gas services facilities, fractionation facilities, terminalling, storage and hub facilities and other facilities or energy infrastructure, as well as the impact of the Company's new projects on its future financial performance;
- pipeline, processing, fractionation and storage facility and system operations and throughput levels;
- Pembina's strategy and the development and expected timing of new business initiatives and growth opportunities and the impact thereof;
- Pembina's estimated decommissioning obligations and deferred tax liability;
- increased throughput potential due to increased oil and gas industry activity and new connections and other initiatives on Pembina's pipelines and at Pembina's facilities;
- expected future cash flows and the sufficiency thereof, financial strength, sources of and access to funds at attractive rates, future contractual obligations, future financing options, future renewal of credit facilities, availability of capital to fund growth plans, operating obligations and dividends and the use of proceeds from financings;
- tolls and tariffs and processing, transportation, fractionation, storage and services commitments and contracts;
- the adoption of new accounting standards;
- the impact of share price and discount rate on annual share-based incentive expense; and
- the impact of the current commodity price environment on Pembina.

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

- oil and gas industry exploration and development activity levels and the geographic region of such activity;
- the success of Pembina's operations;
- prevailing commodity prices, interest rates and exchange rates and the ability of Pembina to maintain current credit ratings;
- the availability of capital to fund future capital requirements relating to existing assets and projects;
- expectations regarding participation in Pembina's DRIP;
- future operating costs including geotechnical and integrity costs;
- oil and gas industry compensation levels;
- in respect of current developments, expansions, planned capital expenditures, completion dates and capacity expectations: that third parties will provide any necessary support; that any third-party projects relating to Pembina's growth projects will be sanctioned and completed as expected; that any required commercial agreements can be reached; that all required regulatory and environmental approvals can be obtained on the necessary terms in a timely manner; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts or the completion of the relevant facilities; and that there are no unforeseen material costs relating to the facilities which are not recoverable from customers;
- in respect of providing value to shareholders: prevailing commodity prices, margins and exchange rates; that Pembina's future results of operations will be consistent with past performance and management expectations in relation thereto; the continued availability of capital at attractive prices to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns; the success of growth projects; future operating costs; that counterparties to material agreements will continue to perform in a timely manner; that there are no unforeseen events preventing the performance of contracts; and that there are no unforeseen material construction or other costs related to current growth projects or current operations;
- interest and tax rates;
- prevailing regulatory, tax and environmental laws and regulations and tax pool utilization; and
- the amount of future liabilities relating to environmental incidents and the availability of coverage under Pembina's insurance policies (including in respect of Pembina's business interruption insurance policy).

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

- the regulatory environment and decisions and Aboriginal and landowner consultation requirements;
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key relationships and agreements and the outcome of stakeholder engagement;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non-performance or default by counterparties to agreements which Pembina or one or more of its subsidiaries has entered into in respect of its business;
- actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation;
- fluctuations in operating results;
- adverse general economic and market conditions in Canada, North America and elsewhere, including changes, or prolonged weakness, as applicable, in interest rates, foreign currency exchange rates, commodity prices, supply/demand trends and overall industry activity levels; and
- the other factors discussed under "Risk Factors" in Pembina's AIF for the year ended December 31, 2015. Pembina's MD&A and AIF are available at www.pembina.com and in Canada under Pembina's company profile on www.sedar.com and in the U.S. on the Company's profile at www.sec.gov.

These factors should not be construed as exhaustive. Unless required by law, Pembina does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements contained herein are expressly qualified by this cautionary statement. The purpose of the financial outlook contained herein is to give the reader an indication of the expected impact of current growth projects on Pembina's future financial performance. Readers should be aware that the financial outlook contained herein may not be appropriate for other purposes.

Pembina Pipeline Corporation

Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2015

Building Something **Extraordinary**

MANAGEMENT'S REPORT

The audited Consolidated Financial Statements of Pembina Pipeline Corporation (the "Company" or "Pembina") are the responsibility of Pembina's management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, using management's best estimates and judgments, where appropriate.

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

Management's Assessment of Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a – 15(f) and 15d – 15(f) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109").

Management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has conducted an evaluation of Pembina's internal control over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management's assessment as at December 31, 2015, management has concluded that Pembina's internal control over financial reporting is effective.

Due to its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of Pembina's financial statements would be prevented or detected. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate.

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

KPMG LLP, the independent auditors, have audited the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), and have also audited the effectiveness of Pembina's internal control over financial reporting as of December 31, 2015 and has included an attestation report on management's assessment in their reports which follow. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.

Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the year covered by this Annual Report that has materially affected, or are reasonably likely to materially affect, Pembina's internal control over financial reporting.

M. H. Dilger
President and Chief Executive Officer
Pembina Pipeline Corporation

J. Scott Burrows
Vice President, Finance and Chief Financial Officer
Pembina Pipeline Corporation

February 25, 2016

KPMG LLP
205 - 5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Pembina Pipeline Corporation

We have audited the accompanying consolidated financial statements of Pembina Pipeline Corporation, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pembina Pipeline Corporation as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG Confidential

Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pembina Pipeline Corporation's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2016 expressed an unmodified (unqualified) opinion on the effectiveness of Pembina Pipeline Corporation's internal control over financial reporting.

KPMG LLP

Chartered Professional Accountants

February 25, 2016
Calgary, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG Confidential

KPMG LLP
205 - 5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Pembina Pipeline Corporation

We have audited Pembina Pipeline Corporation (the "Corporation") internal control over financial reporting as at December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Assessment of Internal Control over Financial Reporting contained in the accompanying Management's Report. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG Confidential

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Corporation as of December 31, 2015 and December 31, 2014, and the related consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and our report dated February 25, 2016 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

KPMG LLP

Chartered Professional Accountants

February 25, 2016
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 *($ millions)*	Note	**2015**	2014
Assets			
Current assets			
Cash and cash equivalents	23	**28**	53
Trade and other receivables	6	**514**	441
Derivative financial instruments	23	**14**	52
Inventory		**120**	137
		676	683
Non-current assets			
Property, plant and equipment	7	**9,254**	7,560
Intangible assets and goodwill	8	**2,822**	2,841
Investments in equity accounted investees	9	**145**	153
Deferred tax assets	10	**28**	19
Other assets	23	**11**	6
		12,260	10,579
Total Assets		**12,936**	11,262
Liabilities and Equity			
Current liabilities			
Trade payables and accrued liabilities	11, 23	**567**	550
Taxes payable			58
Dividends payable	23	**57**	49
Loans and borrowings	12, 23	**5**	4
Derivative financial instruments	23	**10**	44
		639	705
Non-current liabilities			
Loans and borrowings	12, 23	**3,175**	2,466
Convertible debentures	13, 23	**143**	391
Derivative financial instruments	23	**20**	73
Employee benefits, share-based payments and other		**36**	44
Deferred revenue	16	**84**	44
Decommissioning provision	14	**450**	410
Deferred tax liabilities	10	**965**	793
		4,873	4,221
Total Liabilities		**5,512**	4,926
Equity			
Common share capital	15	**7,991**	6,876
Preferred share capital	15	**1,100**	880
Deficit		**(1,670)**	(1,400)
Accumulated other comprehensive income		**3**	(20)
Total Equity		**7,424**	6,336
Total Liabilities and Equity		**12,936**	11,262

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Year Ended December 31 *($ millions, except as noted otherwise)*	Note	**2015**	2014
Revenue	19	**4,635**	6,069
Cost of sales		**3,803**	5,217
Gain on commodity-related derivative financial instruments		**(34)**	(24)
Gross profit	19	**866**	876
General and administrative		**157**	156
Other expense		**24**	18
		181	174
Results from operating activities		**685**	702
Net finance costs	18	**71**	130
Earnings before income tax and equity accounted investees		**614**	572
Share of loss of investment in equity accounted investees, net of tax		**9**	22
Current tax expense	10	**41**	103
Deferred tax expense	10	**158**	64
Income tax expense		**199**	167
Earnings for the year attributable to shareholders		**406**	383
Other comprehensive income (loss)			
Remeasurements of defined benefit liability, net of tax	21	**1**	(14)
Items that will not be reclassified into earnings, net of tax		**1**	(14)
Exchange differences on translation of foreign operations		**22**	2
Other comprehensive income (loss), net of tax		**23**	(12)
Total comprehensive income attributable to shareholders		**429**	371
Earnings per common share – basic *(dollars)*	20	**1.02**	1.07
Earnings per common share – diluted *(dollars)*	20	**1.02**	1.06
Weighted average number of common shares *(millions)*			
Basic	20	**347**	326
Diluted	20	**348**	328

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to Shareholders of the Company						
($ millions)	Note	Common Share Capital	Preferred Share Capital	Deficit	Accumulated Other Comprehensive Income	Total	Non-controlling Interest	Total Equity
December 31, 2013		5,972	391	(1,189)	(8)	5,166	5	5,171
Total comprehensive income								
Earnings				383		383		383
Other comprehensive income								
Defined benefit plan actuarial gains, net of tax of ($5)	21				(14)	(14)		(14)
Exchange differences on translation of foreign operations					2	2		2
Total comprehensive income				383	(12)	371		371
Transactions with shareholders of the Company								
Common shares issued, net of issue costs	15	265				265		265
Preferred shares issued, net of issue costs	15		489			489		489
Dividend reinvestment plan	15	321				321		321
Debenture conversions	15	293				293		293
Share-based payment transactions and other	15	25				25		25
Dividends declared – common	15			(563)		(563)		(563)
Dividends declared – preferred	15			(31)		(31)		(31)
Total transactions with shareholders of the Company		904	489	(594)		799		799
Disposal of subsidiary							(5)	(5)
December 31, 2014		6,876	880	(1,400)	(20)	6,336		6,336
Total comprehensive income								
Earnings				406		406		406
Other comprehensive income								
Defined benefit plan actuarial losses, net of tax of $nil	21				1	1		1
Exchange differences on translation of foreign operations					22	22		22
Total comprehensive income				406	23	429		429
Transactions with shareholders of the Company								
Common shares issued, net of issue costs	15	446				446		446
Preferred shares issued, net of issue costs	15		220			220		220
Dividend reinvestment plan	15	373				373		373
Debenture conversions	15	271				271		271
Share-based payment transactions and other	15	25				25		25
Dividends declared – common	15			(628)		(628)		(628)
Dividends declared – preferred	15			(48)		(48)		(48)
Total transactions with shareholders of the Company		1,115	220	(676)		659		659
December 31, 2015		7,991	1,100	(1,670)	3	7,424		7,424

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *($ millions)*	Note	**2015**	2014
Cash provided by (used in)			
Operating activities			
Earnings		**406**	383
Adjustments for			
Depreciation and amortization		**263**	226
Net finance costs	18	**71**	130
Share of loss of investment in equity accounted investees, net of tax		**9**	22
Income tax expense	10	**199**	167
Share-based compensation expense	22	**25**	39
Unrealized loss (gain) on commodity-related derivative financial instruments	19	**3**	(14)
Inventory write-down	19	**12**	38
Loss on asset disposal and non-recoverable development costs		**27**	6
Change in non-cash operating working capital		**(11)**	(33)
Payments received and deferred		**31**	13
Other		**4**	2
Share-based compensation payment		**(28)**	(30)
Payments from equity accounted investees		**6**	8
Net interest paid	18	**(79)**	(76)
Tax paid	10	**(137)**	(81)
Cash flow from operating activities		**801**	800
Financing activities			
Bank borrowings and issuance of debt		**770**	513
Repayment of loans and borrowings		**(1,261)**	(304)
Issuance of common shares		**460**	
Issuance of preferred shares		**225**	500
Issuance of medium term notes		**1,200**	600
Issue costs and financing fees		**(36)**	(21)
Exercise of stock options		**8**	20
Dividends paid (net of shares issued under the dividend reinvestment plan)		**(294)**	(269)
Cash flow from financing activities		**1,072**	1,039
Investing activities			
Capital expenditures		**(1,811)**	(1,412)
Changes in non-cash investing working capital and other		**(33)**	81
Interest paid during construction	18	**(68)**	(44)
Proceeds from sale of assets		**17**	3
Proceeds from recovery of assets		**24**	
Contributions to equity accounted investees		**(27)**	(8)
Acquisition			(457)
Cash flow used in investing activities		**(1,898)**	(1,837)
Change in cash and cash equivalents		**(25)**	2
Cash and cash equivalents, beginning of year		**53**	51
Cash and cash equivalents, end of year		**28**	53

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

		Page
1.	REPORTING ENTITY	65
2.	BASIS OF PREPARATION	65
3.	CHANGES IN ACCOUNTING POLICIES	67
4.	SIGNIFICANT ACCOUNTING POLICIES	67
5.	DETERMINATION OF FAIR VALUES	80
6.	TRADE AND OTHER RECEIVABLES	81
7.	PROPERTY, PLANT AND EQUIPMENT	82
8.	INTANGIBLE ASSETS AND GOODWILL	83
9.	INVESTMENTS IN EQUITY ACCOUNTED INVESTEES	84
10.	INCOME TAXES	85
11.	TRADE PAYABLES AND ACCRUED LIABILITIES	87
12.	LOANS AND BORROWINGS	88
13.	CONVERTIBLE DEBENTURES	89
14.	DECOMMISSIONING PROVISION	89
15.	SHARE CAPITAL	90
16.	DEFERRED REVENUE	93
17.	PERSONNEL EXPENSES	93
18.	NET FINANCE COSTS	93
19.	OPERATING SEGMENTS	93
20.	EARNINGS PER COMMON SHARE	95
21.	PENSION PLAN	96
22.	SHARE-BASED PAYMENTS	99
23.	FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT	101
24.	OPERATING LEASES	106
25.	CAPITAL MANAGEMENT	107
26.	GROUP ENTITIES	108
27.	RELATED PARTIES	108
28.	ACQUISITION	109
29.	SUBSEQUENT EVENTS	110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Pembina Pipeline Corporation ("Pembina" or the "Company") is an energy transportation and service provider domiciled in Canada. The consolidated financial statements ("Financial Statements") include the accounts of the Company, its subsidiary companies, partnerships and any interests in associates and joint arrangements as at and for the year ended December 31, 2015. These Financial Statements present fairly the financial position, financial performance and cash flows of the Company.

Pembina owns or has interests in conventional crude oil, condensate and natural gas liquids ("NGL") pipelines, oil sands and heavy oil pipelines, gas gathering and processing facilities, an NGL infrastructure and logistics business and midstream services that span across its operations. The Company's assets are located in Canada and in the United States.

2. BASIS OF PREPARATION

a. Basis of measurement and statement of compliance

The Financial Statements have been prepared on a historical cost basis with some exceptions, as detailed in the accounting policies set out below in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These accounting policies have been applied consistently for all periods presented in these financial statements.

Certain insignificant comparative amounts have been reclassified to conform to the presentation adopted in the current year.

The Financial Statements were authorized for issue by Pembina's Board of Directors on February 25, 2016.

b. Functional and presentation currency

The Financial Statements are presented in Canadian dollars. All financial information presented in Canadian dollars has been disclosed in millions, except where noted. The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the foreign exchange rate at the balance sheet date, while revenues and expenses of such subsidiaries are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation are included in Other Comprehensive Income.

c. Use of estimates and judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on the circumstances and estimates at the date of the financial statements and affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following judgment and estimation uncertainties are those management considers material to the Company's financial statements:

Judgments

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make judgments about future possible events. The assumptions with respect to determining the fair value of property, plant and equipment, intangible assets and liabilities acquired, as well as the determination of deferred taxes, generally require the most judgment.

(ii) Depreciation and amortization

Depreciation and amortization of property, plant and equipment and intangible assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Company. Among other factors, these judgments are based on industry standards and historical experience.

(iii) Impairment

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset, or cash generating unit ("CGU"), or group of CGU's are impaired. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

Estimates

(i) Business combinations

Estimates of future cash flows, forecast prices, interest rates and discount rates are made in determining the fair value of assets acquired and liabilities assumed. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets and goodwill in the purchase price equation. Future earnings can be affected as a result of changes in future depreciation and amortization, asset or goodwill impairment.

(ii) Provisions and contingencies

Provisions recognized are based on management's judgment about assessing contingencies and timing, scope and amount of assets and liabilities. Management uses judgment in determining the likelihood of realization of contingent assets and liabilities to determine the outcome of contingencies.

Based on the long-term nature of the decommissioning provision, the most significant uncertainties in estimating the provision are the discount rates used, the costs that will be incurred and the timing of when these costs will occur.

(iii) Deferred taxes

The calculation of the deferred tax asset or liability is based on assumptions about the timing of many taxable events and the enacted or substantively enacted rates anticipated to be applicable to income in the years in which temporary differences are expected to be realized or reversed.

(iv) Depreciation and amortization

Estimated useful lives of property, plant and equipment and intangible assets are based on management's assumptions and estimates of the physical useful lives of the assets, the economic lives, which may be associated with the reserve lives and commodity type of the production area, in addition to the estimated residual value.

(v) Impairment tests

Impairment tests include management's best estimates of future cash flows and discount rates.

3. CHANGES IN ACCOUNTING POLICIES

The following amendments to existing standards issued by the International Accounting Standards Board ("IASB") were adopted as of January 1, 2015, without any material impact to Pembina's Financial Statements: IAS 24 *Related Party Disclosures* and IFRS 8 *Operating Segments*.

Except for the changes below, accounting policies as disclosed in Note 4 have been applied to all periods consistently.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies as set out below have been applied consistently to all periods presented in these Financial Statements.

a. Basis of consolidation

i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in earnings.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a separate component of equity. Their share of net income and other comprehensive income is also recognized in this separate component of equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in earnings.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

ii) Subsidiaries

Subsidiaries are entities, including unincorporated entities such as partnerships, controlled by the Company. The financial results of subsidiaries are included in the Financial Statements from the date that control

commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company.

iii) Investments in associates

Associates are those entities in which the Company has significant influence and thereby has the power to participate in the financial and operational decisions, but does not control or jointly control the investee. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

The Financial Statements include the Company's share of the earnings and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. The Company's investments in associates are accounted for using the equity method and are recognized initially at cost, including transaction costs.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

iv) Joint arrangements

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for the relevant financial and operational decisions. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

For a joint operation, the consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the arrangement with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

Joint ventures are accounted for using the equity method of accounting and recognized at cost and adjusted thereafter for the post-acquisition change in the Company's share of the joint venture's net assets. The Company's consolidated financial statements include its share of the joint venture's profit or loss and other comprehensive income included in investment in joint ventures, until the date that joint control ceases.

Determining the type of joint arrangement as either joint operation or joint venture is based on management's assumptions of whether it has joint control over another entity. The considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized revenue and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the

Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

vi) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the Company's functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in earnings, with the exception of foreign exchange differences arising on translation of subsidiaries whose functional currencies are other than the Canadian dollar which are included in Other Comprehensive Income.

b. Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and short-term investments with original maturities of ninety days or less that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

c. Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses.

d. Inventories

Inventories are measured at the lower of cost and net realizable value and consist primarily of crude oil and NGL. The cost of inventories is determined using the weighted average costing method and includes direct purchase costs and when applicable, costs of production, extraction, fractionation costs, and transportation costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling costs. All changes in the value of the inventories are reflected in inventories and cost of sales.

e. Financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

i) Non-derivative financial assets

The Company initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through earnings) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies non-derivative financial assets into the following categories:

Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred.

Loans and receivables

Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses.

Available for sale

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with changes in those fair values recognized in other comprehensive income. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss. The Company did not have any financial assets classified as available for sale during the years covered in these financial statements.

ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through earnings) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company's non-derivative financial liabilities are comprised of the following: bank overdrafts, trade payables and accrued liabilities, taxes payable, dividends payable, loans and borrowings including finance lease obligations and the liability component of convertible debentures.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

iii) Common share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

iv) Preferred share capital

Preferred shares are classified as equity because they bear discretionary dividends and do not contain any obligations to deliver cash or other financial assets. Discretionary dividends are recognized as equity distributions on approval by the Company's Board of Directors. Incremental costs directly attributable to the issue of preferred shares are recognized as a deduction from equity, net of any tax effects.

v) Compound financial instruments

The Company's convertible debentures are compound financial instruments consisting of a financial liability and an embedded conversion feature. In accordance with IAS 39, the embedded derivatives are required to be separated from the host contracts and accounted for as stand-alone instruments.

Debentures containing a cash conversion option allow Pembina to pay cash to the converting holder of the debentures, at the option of the Company. As such, the conversion feature is presented as a financial derivative liability within long-term derivative financial instruments. Debentures without a cash conversion option are settled in shares on conversion, and therefore the conversion feature is presented within equity, in accordance with its contractual substance.

On initial recognition and at each reporting date, the embedded conversion feature is measured using a method whereby the fair value is measured using an option pricing model. Subsequent to initial recognition, any unrealized gains or losses arising from fair value changes are recognized through earnings in the statement of earnings and comprehensive income at each reporting date. If the conversion feature is included in equity, it is not remeasured subsequent to initial recognition. On initial recognition, the debt component, net of issue costs, is recorded as a financial liability and accounted for at amortized cost. Subsequent to initial recognition, the debt component is accreted to the face value of the debentures using the effective interest rate method. Upon conversion, the corresponding portions of the debt and equity are removed from those captions and transferred to share capital.

vi) Derivative financial instruments

The Company holds derivative financial instruments to manage its interest rate, commodity, power costs and foreign exchange risk exposures as well as cash conversion features on convertible debentures and a redemption liability. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Derivatives are recognized initially at fair value with attributable transaction costs recognized in earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in non-commodity-related derivatives are recognized immediately in earnings in net finance costs and changes in commodity-related derivatives are recognized immediately in earnings in operating activities.

f. Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, estimated decommissioning provisions and borrowing costs on qualifying assets.

Cost may also include any gain or loss realized on foreign currency transactions directly attributable to the purchase or construction of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within other expense (income) in earnings.

ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized and recorded as depreciation expense. The cost of maintenance and repair expenses of the property, plant and equipment are recognized in earnings as incurred.

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately. Land and linefill are not depreciated.

Depreciation is recognized in earnings on a straight line or declining balance basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Pipeline assets are depreciated using the straight line method over one to 75 years (an average of 49 years). Facilities and equipment are depreciated using the straight line method over one to 75 years (at an average rate of 41 years). Other assets are depreciated using the straight line method over one to 40 years (an average of 35 years) or declining balance method at rates ranging from six percent to 21 percent (at an average rate of 12 percent per annum). These rates are established to depreciate remaining net book value over the shorter of their useful lives, economic lives or contractual duration of the related assets.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation methods, useful lives, economic lives and residual values are reviewed annually and adjusted if appropriate.

g. Intangible assets

i) Goodwill

Goodwill that arises upon acquisitions is included in intangible assets. See Note 4(a)(i) for the policy on measurement of goodwill at initial recognition.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is allocated to the investment and not to any asset, including goodwill, that forms the carrying amount of the equity-accounted investee.

ii) Other intangible assets

Other intangible assets acquired individually by the Company and have finite useful lives are recognized and measured at cost less accumulated amortization and accumulated impairment losses.

iii) Subsequent expenditures

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in earnings as incurred.

iv) Amortization

Amortization is based on the cost of an asset less its residual value.

Amortization is recognized in earnings over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Intangible assets with finite useful life are amortized using the straight line method over 6 to 60 years (at an average of 15 years) or declining balance method at 24 percent per annum.

Amortization methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

h. Leased assets

Leases which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The leased asset is initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized in the Company's statement of financial position.

i. Lease payments

Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are deferred and recognized over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining life.

i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to a lessee the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes, for a finance lease, that it is impracticable to separate the payments reliably, an asset and liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

j. Impairment

i) Non-derivative financial assets

A financial asset not carried at fair value through earnings is assessed at each reporting date to determine whether it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has a negative impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security or a significant or prolonged decline in the fair value below cost.

Trade receivables ("Receivables")

The Company considers evidence of impairment for Receivables at both a specific asset and collective level. All individually significant Receivables are assessed for specific impairment. All individually significant Receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together Receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in earnings and reflected in an allowance account against Receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through earnings.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventory, assets arising from employee benefits and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at December 31st of each year. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. For the purpose of goodwill impairment testing, CGUs are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal purposes. Goodwill acquired in a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Impairment losses are recognized in earnings. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an equity-accounted investee is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment is tested for impairment as a single asset when there is objective evidence that the equity-accounted investee may be impaired.

k. Employee benefits

i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in earnings in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

ii) Defined benefit pension plans

A defined benefit pension plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value of any plan assets. The discount rate used to determine the present value is established by referencing market yields on high-quality corporate bonds on the measurement date with cash flows that match the timing and amount of expected benefits.

The calculation is performed, at a minimum, every three years by a qualified actuary using the actuarial cost method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of economic benefits available in the form of future expenses payable from the plan, any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in earnings immediately.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in earnings.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

iv) Share-based payment transactions

For equity settled share-based payment plans, the fair value of the share-based payment at grant date is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

For cash settled share-based payment plans, the fair value of the amount payable to employees is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as an expense in earnings.

l. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are remeasured at each reporting date based on the best estimate of the settlement amount. The unwinding of the discount rate is recognized as a finance cost.

i) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value, based on a risk-free rate, of management's best estimate of expenditure required to settle the obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases or decreases due to changes in the estimated future cash flows or risk-free rate are added to or deducted from the cost of the related asset.

m. Revenue

Revenue in the course of ordinary activities is measured at the fair value of the consideration received or receivable. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer or the service has been provided, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfer of significant risks and rewards varies depending on the individual terms of the sales or service agreement. For product sales, usually transfer of significant risks and rewards occurs when the product is delivered to a customer. For pipeline transportation revenues and storage revenue, transfer of significant risks and rewards usually occurs when the service is provided as per the contract with the customer. For rate or contractually regulated pipeline operations, revenue is recognized in a manner that is consistent with the underlying rate design as mandated by agreement or regulatory authority.

Certain commodity buy/sell arrangements where the risks and rewards of ownership have not transferred are recognized on a net basis in earnings.

n. Finance income and finance costs

Finance income comprises interest income on funds deposited and invested, gains on non-commodity-related derivatives measured at fair value through earnings and foreign exchange gains. Interest income is recognized as it accrues in earnings, using the effective interest method.

Finance costs comprise interest expense on loans and borrowings and convertible debentures, unwinding of discount rate on provisions, losses on disposal of available for sale financial assets, losses on non-commodity-related derivatives, impairment losses recognized on financial assets (other than trade and other receivables) and foreign exchange losses.

Borrowing costs that are not directly attributable to the acquisition or construction of a qualifying asset are recognized in earnings using the effective interest method.

o. Income tax

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in earnings except to the extent that it relates to a business combination, or items are recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings;
- temporary differences relating to investments in subsidiaries and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred

tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax, the Company takes into account income tax exposures and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

p. Earnings per common share

The Company presents basic and diluted earnings per common share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. To calculate earnings attributable to common shareholders, earnings are adjusted for accumulated preferred dividends. Diluted EPS is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all potentially dilutive common shares, which comprise convertible debentures and share options granted to employees ("Convertible Instruments"). Only outstanding and Convertible Instruments that will have a dilutive effect are included in fully diluted calculations.

The dilutive effect of Convertible Instruments is determined whereby outstanding Convertible Instruments at the end of the period are assumed to have been converted at the beginning of the period or at the time issued if issued during the year. Amounts charged to earnings relating to the outstanding Convertible Instruments are added back to earnings for the diluted calculations. The shares issued upon conversion are included in the denominator of per share basic calculations for the date of issue.

q. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and Senior Vice Presidents ("SVPs") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO, CFO and SVPs include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, corporate general and administrative expenses, finance income and costs, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

r. Cash flow statements

The cash flow statement is prepared using the indirect method for calculating cash flow from operating activities. Changes in balance sheet items that have not resulted in cash flows such as share-based compensation expense, unwinding of discount rates, unrealized gains and losses, depreciation and amortization, employee future benefit expenses, deferred income tax expense, share of profit from equity-accounted investees, among others, have been eliminated for the purpose of preparing this statement. Dividends paid to ordinary shareholders, among other

expenditures, are included in financing activities. Interest paid is included in operating activities, with the exception of interest paid during construction, which is included in investing activities.

s. New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning on or after January 1, 2016. These standards have not been applied in preparing these Financial Statements. Those which may be relevant to Pembina are described below:

IFRS 9 *Financial Instruments* (2014) is effective January 1, 2018 and is available for early adoption. The new standard is a single financial instrument accounting standard addressing: classification and measurement (Phase I), impairment (Phase II) and hedge accounting (Phase III). The Company is currently evaluating the impact that the standard will have on its results of operations and financial position and is assessing when adoption will occur.

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue; at a point in time or over time. The Company intends to adopt IFRS 15 for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

IFRS 16 *Leases* is effective for annual periods beginning on or after January 1, 2019. The new standard results in substantially all lessee leases being recorded on the statement of financial position. The Company intends to adopt IFRS 16 for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

ii) Intangible assets

The fair value of intangible assets acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

iii) Derivatives

Fair value of derivatives are estimated by reference to independent monthly forward prices, interest rate yield curves, currency rates and quoted market prices per share at the period ends.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the company, entity and counterparty when appropriate.

iv) Non-derivative financial assets and liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the convertible debentures, the fair value is determined by the market price of the convertible debenture on the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

v) Share-based compensation transactions

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, expected forfeitures and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of the long-term share unit award incentive plan and associated distribution units are measured based on the volume-weighted average price for 20 days ending at the reporting date of the Company's shares. Expected dividends are not taken into account in determining fair value as they are issued as additional distribution share units.

vi) Finance lease assets

The fair value of finance lease assets is based on market values at the inception date.

6. TRADE AND OTHER RECEIVABLES

December 31 *($ millions)*	**2015**	2014
Trade accounts receivable from customers	**112**	154
Other accounts receivable	**382**	269
Prepayments	**21**	18
Allowance for doubtful accounts	**(1)**	
Total trade receivables and other	**514**	441

7. PROPERTY, PLANT AND EQUIPMENT

($ millions)	Land and Land Rights	Pipelines	Facilities and Equipment	Linefill and Other	Assets Under Construction	Total
Cost						
Balance at December 31, 2013	106	2,783	2,670	697	636	6,892
Additions and transfers	4	218	549	128	559	1,458
Acquisition (Note 28)	38	345	18		46	447
Change in decommissioning provision		52	48			100
Disposals and other		21	(9)	(30)	(30)	(48)
Balance at December 31, 2014	148	3,419	3,276	795	1,211	8,849
Additions and transfers	2	422	788	130	529	1,871
Acquisition (Note 28)			4			4
Change in decommissioning provision		28	16			44
Disposals and other	(1)	13	(8)	(25)	(19)	(40)
Balance at December 31, 2015	149	3,882	4,076	900	1,721	10,728
Depreciation						
Balance at December 31, 2013	5	824	241	72		1,142
Depreciation		49	88	45		182
Disposals and other		(1)	(9)	(25)		(35)
Balance at December 31, 2014	5	872	320	92		1,289
Depreciation	1	67	109	39		216
Disposals and other		(11)	(9)	(11)		(31)
Balance at December 31, 2015	6	928	420	120		1,474
Carrying amounts						
December 31, 2014	143	2,547	2,956	703	1,211	7,560
December 31, 2015	143	2,954	3,656	780	1,721	9,254

Property, plant and equipment under construction

Costs of assets under construction at December 31, 2015 totalled $1,721 million (2014: $1,211 million) including capitalized borrowing costs.

For the year ended December 31, 2015, included in additions and transfers are capitalized borrowing costs related to the construction of new pipelines or facilities amounted to $71 million (2014: $46 million), with capitalization rates ranging from 4.38 percent to 4.67 percent (2014: 4.57 percent to 5.06 percent).

Commitments

At December 31, 2015, the Company has contractual construction commitments for property, plant and equipment of $1,878 million (December 31, 2014: $1,978 million), excluding significant projects awaiting regulatory approval.

8. INTANGIBLE ASSETS AND GOODWILL

		Intangible Assets				
($ millions)	Goodwill	Purchase and Sale Contracts and Other	Customer Relationships	Purchase Option	Total	Total Goodwill & Intangible Assets
Cost						
Balance at December 31, 2013	1,966	188	227	277	692	2,658
Acquisition (Note 28)	130		204		204	334
Additions and other	(6)		1		1	(5)
Balance at December 31, 2014	2,090	188	432	277	897	2,987
Acquisition (Note 28)	7					7
Additions and other		13	8		21	21
Balance at December 31, 2015	2,097	201	440	277	918	3,015
Amortization						
Balance at December 31, 2013		60	34		94	94
Amortization		32	20		52	52
Balance at December 31, 2014		92	54		146	146
Amortization		18	29		47	47
Balance at December 31, 2015		110	83		193	193
Carrying amounts						
December 31, 2014	2,090	96	378	277	751	2,841
December 31, 2015	2,097	91	357	277	725	2,822

The purchase option attributable to the Midstream operating segment of $277 million to acquire property, plant and equipment is not being amortized because it is not exercisable until 2018.

The aggregate carrying amount of intangible assets and goodwill allocated to each operating segment is as follows:

December 31 *($ millions)*		**2015**			2014	
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Conventional Pipelines	**453**	**201**	**654**	440	187	627
Oil Sands & Heavy Oil	**28**	**6**	**34**	28	5	33
Gas Services	**176**	**19**	**195**	182	35	217
Midstream	**1,440**	**491**	**1,931**	1,440	524	1,964
Corporate		**8**	**8**			
	2,097	**725**	**2,822**	2,090	751	2,841

Goodwill Impairment Testing

For the purpose of impairment testing, goodwill is allocated to the Company's operating segments which represents the lowest level within the Company at which the goodwill is monitored for management purposes. Impairment testing for goodwill was performed as at December 31, 2015. The recoverable amounts were based on their value in use and were determined to be higher than their carrying amounts.

The recoverable amount was determined using the value-in-use model by discounting the future cash flows generated from the continuing use of each operating segment. The calculation of the value in use is based on the following key assumptions:

- Cash flows are projected based on past experience, actual operating results and four years (2014: four years) of the business plan approved by management.
- Long-term growth: cash flows for periods up to 75 years (2014: 75 years) were extrapolated using a constant medium-term inflation, except where contracted, long-term cash flows indicated that no inflation should be applied or specific reduction in cash flows was more appropriate.
- Pre-tax discount rates were applied in determining the recoverable amount of operating segments. Discount rates were estimated based on past experience, the Company's risk free rate and average cost of debt, targeted debt to equity ratio, in addition to estimates of the specific operating segment's equity risk premium, size premium, small capitalization premium, projection risk, betas and tax rate.

The following summarizes the key assumptions used in the impairment test:

	Operating Segments			
2015 *(percent)*	Conventional	Midstream	Gas Services	Oil Sands & Heavy Oil
Pre-tax discount rate	8.01	9.28	8.81	9.13
Adjusted inflation rate	2.00	2.00	1.05	0.99
Change that would result in carrying value equal to recoverable amount				
Increase in pre-tax discount rate	6.45	4.08	1.75	1.43

9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

The Company has a 50 percent interest in two joint ventures (Fort Saskatchewan Ethylene Storage Corporation and Fort Saskatchewan Ethylene Storage Limited Partnership) that are reported using the equity method of accounting. The carrying value of the investments at December 31, 2015 is $145 million (2014: $153 million).

At December 31, 2015, the Company had no contractual commitments for additional investment in its equity-accounted investees (December 31, 2014: $5 million).

10. INCOME TAXES

The movements of the components of the deferred tax assets and deferred tax liabilities are as follows:

($ millions)	Balance at December 31, 2014	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2015
Deferred income tax assets							
Derivative financial instruments	3	2					5
Employee benefits	5	(4)					1
Share-based payments	13	(4)					9
Provisions	104	20					124
Benefit of loss carryforwards	22	41					63
Other deductible temporary differences	23	(19)			4	(1)	7
Deferred income tax liabilities							
Property, plant and equipment	(699)	(230)					(929)
Intangible assets	(171)	12		(11)			(170)
Investments in equity accounted investees	(7)	16				3	12
Taxable limited partnership income deferral	(48)	(1)					(49)
Other taxable temporary differences	(19)	9					(10)
Total deferred tax liabilities	**(774)**	**(158)**		**(11)**	**4**	**2**	**(937)**

($ millions)	Balance at December 31, 2013	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2014
Deferred income tax assets							
Derivative financial instruments	6	(3)					3
Employee benefits			5				5
Share-based payments		13					13
Provisions	78	26					104
Benefit of loss carryforwards	14	(1)		9			22
Other deductible temporary differences	22	(1)		1	3	(2)	23
Deferred income tax liabilities							
Property, plant and equipment	(588)	(115)	(1)	2		3	(699)
Intangible assets	(124)	6		(53)			(171)
Investments in equity accounted investees	(17)	3				7	(7)
Taxable limited partnership income deferral	(64)	16					(48)
Other taxable temporary differences	(11)	(8)					(19)
Total deferred tax liabilities	**(684)**	**(64)**	**4**	**(41)**	**3**	**8**	**(774)**

The Company's consolidated statutory tax rate for the year ended December 31, 2015 was 27 percent (2014: 25 percent). Effective July 1, 2015, the Alberta general corporate tax rate increased from 10 percent to 12 percent. As a result, deferred tax expense and deferred tax liabilities increased by $52 million.

Reconciliation of effective tax rate

Year Ended December 31 *($ millions, except as noted)*	**2015**	2014
Earnings before income tax	**614**	572
Statutory tax rate *(percent)*	**27**	25
Income tax at statutory rate	**165**	143
Tax rate changes on deferred income tax balances	**52**	2
Changes in estimate and other	**(10)**	8
Permanent items	**(8)**	14
Income tax expense	**199**	167

Income tax expense

Year Ended December 31 *($ millions)*	**2015**	2014
Current tax expense	**41**	103
Deferred tax expense		
Origination and reversal of temporary differences	**144**	57
Tax rate changes on deferred tax balances	**52**	2
(Increase) / Decrease in tax loss carry forward	**(38)**	5
Total deferred tax expense	**158**	64
Total income tax expense	**199**	167

Deferred tax items recovered directly in equity

Year Ended December 31 *($ millions)*	**2015**	2014
Share issue costs	**4**	3
Other comprehensive loss		4
Deferred tax items recovered directly in equity	**4**	7

Cash taxes paid during the year were $137 million (2014: $81 million).

The Company has temporary differences associated with its investments in foreign subsidiaries, branches, and interests in joint arrangements. At December 31, 2015, the Company has not recorded a deferred tax asset or liability for these temporary differences (December 31, 2014: nil) as the Company controls the timing of the reversal and it is not probable that the temporary differences will reverse in the foreseeable future.

At December 31, 2015, the Company had US$54 million (December 31, 2014: US$29 million) of U.S. tax losses that will expire after 2030, and $125 million (December 31, 2014: $41 million) of Canadian tax losses that will expire after 2030. The Company has recorded deferred tax assets of $19 million at December 31, 2015 (December 31, 2014: $15 million) in respect of these losses, as it has been determined that it is probable that future taxable profits will be sufficient to utilize these losses.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

December 31 *($ millions)*	**2015**	2014
Trade payables	**373**	444
Other payables & accrued liabilities	**194**	106
Total current trade and other payables	**567**	550

12. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

Carrying value, terms and conditions, and debt maturity schedule

December 31 *($ millions)*	Available facilities at December 31, 2015	Nominal interest rate	Year of maturity	Carrying value 2015	2014
Operating facility , unsecured[1]	30	prime + 0.45 or BA[2] + 1.45	2016[3]		
Revolving unsecured credit facility[1]	2,000	prime + 0.45 or BA[2] + 1.45	2020	**25**	510
Senior unsecured notes – Series C	200	5.58	2021	**198**	197
Senior unsecured notes – Series D	267	5.91	2019	**266**	266
Senior unsecured medium-term notes 1	250	4.89	2021	**249**	249
Senior unsecured medium-term notes 2	450	3.77	2022	**448**	448
Senior unsecured medium-term notes 3	450	4.75	2043	**446**	198
Senior unsecured medium-term notes 4	600	4.81	2044	**596**	596
Senior unsecured medium-term notes 5	450	3.54	2025	**448**	
Senior unsecured medium-term notes 6	500	4.24	2027	**497**	
Finance lease liabilities and other				**7**	6
Total interest bearing liabilities	5,197			**3,180**	2,470
Less current portion				**(5)**	(4)
Total non-current				**3,175**	2,466

[1] The nominal interest rate is based on the Company's credit rating at December 31, 2015.
[2] Bankers' Acceptance.
[3] Operating facility expected to be renewed on an annual basis.

On June 16, 2015, Pembina issued $600 million of senior unsecured medium-term notes conducted in two tranches consisting of $500 million in senior unsecured medium-term notes, Series 6, having a fixed coupon of 4.24 percent per annum, paid semi-annually, and maturing on June 15, 2027, and $100 million through the re-opening of its 4.75 percent medium-term notes, Series 3, maturing on April 30, 2043.

On April 16, 2015, Pembina increased the available funds under its unsecured revolving credit facility to $2 billion and retained a $750 million accordion feature. The unsecured revolving credit facility maturity date was extended to May 2020 from March 2019 and the $30 million operating facility maturity date was extended to May 2016 from July 2015.

On February 2, 2015, Pembina issued $600 million of senior unsecured medium-term notes conducted in two tranches consisting of $450 million in senior unsecured medium-term notes, Series 5, having a fixed coupon of 3.54 percent per annum, paid semi-annually, and maturing on February 3, 2025, and $150 million through the re-opening of its 4.75 percent medium-term notes, Series 3, maturing on April 30, 2043.

On April 4, 2014, Pembina issued $600 million senior unsecured medium-term notes, Series 4, having a fixed coupon of 4.81 percent per annum, paid semi-annually, and maturing on March 25, 2044.

All facilities are governed by specific debt covenants which Pembina has been in compliance with during the years ended December 31, 2015 and 2014.

For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see financial instruments and financial risk management Note 23.

13. CONVERTIBLE DEBENTURES

($ millions, except as noted)	**Series C – 5.75%**	**Series E – 5.75%**	**Series F – 5.75%**	**Total**
Conversion price *(dollars per share)*	**$28.55**	**$24.94**	**$29.53**	
Interest payable semi-annually in arrears on:	May 31 and November 30	June 30 and December 31	June 30 and December 31	
Maturity Date	October 13, 2015	October 13, 2015	December 31, 2018	
Balance at December 31, 2013	290	153	161	604
Conversions	(62)	(134)	(21)	(217)
Unwinding of discount rate			1	1
Deferred financing fee (net of amortization)	1	1	1	3
Balance at December 31, 2014	229	20	142	391
Conversions/Redemptions	(236)	(24)	(1)	(261)
Unwinding of discount rate		1	1	2
Deferred financing fee (net of amortization)	7	3	1	11
Balance at December 31, 2015			143	143

On October 13, 2015, Pembina redeemed its Series C debentures and its Series E debentures. In each case, Pembina elected to satisfy the redemption of the debentures through the issuance of common shares.

The Series F debentures may be converted at the option of the holder at a conversion price of $29.53 per common share at any time prior to maturity and may be redeemed by the Company. The Company may, at its option prior to December 31, 2016, elect to redeem the Series F debentures in whole or in part, provided that the volume-weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125 percent of the conversion price of the Series F debentures. On or after December 31, 2016, the Series F debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest. Any accrued unpaid interest will be paid in cash.

The Company retains a cash conversion option on the Series F convertible debentures, allowing the Company to pay cash to the converting holder of the debentures, at the option of the Company. The cash conversion feature is recognized as an embedded derivative and accounted for as a derivative financial instrument, measured at fair value using an option pricing model.

14. DECOMMISSIONING PROVISION

The Company has estimated the net present value of its total decommissioning obligations based on a total future liability at $462 million (2014: $410 million). The estimate includes a revision in the decommissioning assumptions and associated costs and timing of payments. The obligations are expected to be paid over the next 75 years (2014: 75 years) with majority being paid between 30 and 40 years. The Company applied a two percent medium term inflation rate per annum (2014: 2 percent) and a risk free rate of 2.2 percent (2014: 2.3 percent) to calculate the present value of the decommissioning provision. Changes in the measurement of the decommissioning provision were added to, or deducted from, the cost of the related asset in property, plant and equipment. When a remeasurement reduction of the decommissioning provision is in excess of the carrying amount of the related asset, the amount is credited to depreciation expense. In the year ended December 31, 2015, $1 million (2014: $8 million) was in excess of the carrying amount of the related asset and was credited to depreciation expense.

The property, plant and equipment of the Company consist primarily of underground pipelines, above ground equipment facilities and storage assets. In determining the provision, it is assumed that the Company will utilize technology and materials that are currently available.

($ millions)	**2015**	2014
Balance at January 1	**410**	309
Unwinding of discount rate	**10**	9
Decommissioning liabilities settled during the period	**(2)**	(1)
Change in rates	**28**	111
Additions	**42**	41
Change in estimates and other	**(26)**	(59)
Total	**462**	410
Less current portion (included in accrued liabilities)	**(12)**	
Balance at December 31	**450**	410

15. SHARE CAPITAL

Pembina is authorized to issue an unlimited number of common shares, a number of a class of Class A Preferred Shares, issuable in series, not to exceed twenty percent of the number of issued and outstanding Common Shares at the time of issuance of any Class A Preferred Shares and an unlimited number of Class B Preferred Shares. The holders of the common shares are entitled to receive notice of, attend at and vote at any meeting of the shareholders of the Company, receive dividends declared and share in the remaining property of the Company upon distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs.

Pembina has adopted a shareholder rights plan ("Plan") as a mechanism designed to assist the board in ensuring the fair and equal treatment of all shareholders in the face of an actual or contemplated unsolicited bid to take control of the Company. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it will be difficult for the board to prepare an adequate response. Such offers may result in shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in Pembina. The Plan discourages the making of any such offers by creating the potential of significant dilution to any offeror who does so. The Plan was reconfirmed at Pembina's 2013 meeting of Shareholders and must be reconfirmed at every third annual meeting thereafter. Accordingly, the Plan, with such amendments as the Board of Directors determines to be necessary or advisable, and as may otherwise be required by law, is expected to be placed before Shareholders for approval at Pembina's 2016 annual meeting. A copy of the agreement relating to the current Plan has been filed on Pembina's SEDAR and EDGAR profiles.

Common Share Capital

($ millions, except as noted)	**Number of Common Shares** *(millions)*	**Common Share Capital**
Balance at December 31, 2013	315	5,972
Issued on acquisition, net of issue costs	6	265
Dividend reinvestment plan	8	321
Debenture conversion	8	293
Share-based payment transactions and other	1	25
Balance at December 31, 2014	338	6,876
Issued, net of issue costs	15	446
Dividend reinvestment plan	11	373
Debenture conversion	9	271
Share-based payment transactions and other		25
Balance at December 31, 2015	**373**	**7,991**

On November 19, 2015, Pembina closed a bought deal offering of 15,335,250 common shares at a price of $30.00 per share for aggregate gross proceeds of $460 million.

Preferred Share Capital

($ millions, except as noted)	**Number of Preferred Shares** *(millions)*	**Preferred Share Capital**
Balance at December 31, 2013	16	391
Class A, Series 5 Preferred shares issued, net of issue costs	10	244
Class A, Series 7 Preferred shares issued, net of issue costs	10	245
Balance at December 31, 2014	36	880
Class A, Series 9 Preferred shares issued, net of issue costs	9	220
Balance at December 31, 2015	**45**	**1,100**

On April 10, 2015 Pembina issued 9 million cumulative redeemable rate reset class A preferred shares, Series 9 ("Series 9 Preferred Shares") for aggregate gross proceeds of $225 million. The holders of Series 9 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of $1.1875 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on December 1, 2020 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 3.91 percent. The Series 9 Preferred Shares are redeemable by the Company at its option on December 1, 2020 and on December 1 of every fifth year thereafter.

Holders of the Series 9 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred shares, Series 10 ("Series 10 Preferred Shares"), subject to certain conditions, on December 1, 2020 and on December 1 of every fifth year thereafter. Holders of Series 10 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 3.91 percent, if, as and when declared by the Board of Directors of Pembina.

On September 11, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset Class A Preferred shares, Series 7 (the "Series 7 Preferred Shares") at a price of $25.00 per share for aggregate proceeds of $250 million. The holders of Series 7 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of $1.125 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on

December 1, 2019 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 2.94 percent. The Series 7 Preferred Shares are redeemable by the Company at its option on December 1, 2019 and on December 1 of every fifth year thereafter.

Holders of the Series 7 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred shares, Series 8 ("Series 8 Preferred Shares"), subject to certain conditions, on December 1, 2019 and on December 1 of every fifth year thereafter. Holders of Series 8 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 2.94 percent, if, as and when declared by the Board of Directors of Pembina.

On January 16, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset Class A Preferred shares, Series 5 (the "Series 5 Preferred Shares") at a price of $25.00 per share for aggregate proceeds of $250 million. The holders of Series 5 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of $1.25 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on June 1, 2019 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 3.00 percent. The Series 5 Preferred Shares are redeemable by the Company at its option on June 1, 2019 and on June 1 of every fifth year thereafter.

Holders of the Series 5 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred shares, Series 6 ("Series 6 Preferred Shares"), subject to certain conditions, on June 1, 2019 and on June 1 of every fifth year thereafter. Holders of Series 6 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 3.00 percent, if, as and when declared by the Board of Directors of Pembina.

Subsequent to the year-end, Pembina issued 6.8 million cumulative redeemable minimum rate reset class A preferred shares, Series 11 ("Series 11 Preferred Shares") for aggregate gross proceeds of $170 million. See Note 29 regarding subsequent events.

Dividends

The Company has a Premium Dividend™ and Dividend Reinvestment Plan. Eligible common shareholders have the opportunity to receive additional common shares by reinvesting the cash dividends declared payable by the Company on its common shares.

The following dividends were declared by the Company:

Year Ended December 31 *($ millions)*	**2015**	2014
Common shares		
$1.80000 per qualifying share (2014: $1.72000)	**628**	563
Preferred shares		
$1.06250 per qualifying Series 1 share (2014: $1.06250)	**11**	11
$1.17500 per qualifying Series 3 share (2014: $1.17500)	**7**	7
$1.25000 per qualifying Series 5 share (2014: $1.08820)	**12**	11
$1.12500 per qualifying Series 7 share (2014: $0.24970)	**11**	2
$0.76538 per qualifying Series 9 preferred share (2014: nil)	**7**	
	48	31

On January 7, 2016, Pembina announced that the Board of Directors declared a dividend for January of $0.1525 per qualifying common share ($1.83 annualized) in the total amount of $57 million. This dividend was paid on February 12, 2016 to shareholders of record on January 25, 2016. On the same date, Pembina announced that the

Board of Directors had declared a quarterly dividend of $0.265625 per qualifying Series 1 preferred share, $0.29375 per qualifying Series 3 preferred share, $0.3125 per qualifying Series 5 preferred share, $0.28125 per qualifying Series 7 preferred share and $0.296875 per qualifying Series 9 preferred share in the total amount of $13 million payable on March 1, 2016 to shareholders of record on February 1, 2016.

On February 8, 2016, Pembina announced that the Board of Directors declared a dividend for February of $0.1525 per qualifying common share ($1.83 annualized) payable on March 15, 2016 to shareholders of record on February 25, 2016.

16. DEFERRED REVENUE

Deferred revenue consists of asset purchases that occurred at a nominal value in exchange for future toll reductions which is amortized to revenue over the life of the asset. Deferred revenue also includes other payments received from customers or lessors related to capital expenditures or lease inducements which are amortized over the lease or contract terms.

17. PERSONNEL EXPENSES

Year Ended December 31 *($ millions)*	**2015**	2014
Salaries and wages	**148**	120
Share-based compensation expense (Note 22)	**25**	39
Short-term incentive plan	**25**	28
Pension plan expense	**16**	13
Health, savings plan and other benefits	**16**	14
	230	214

18. NET FINANCE COSTS

Year Ended December 31 *($ millions)*	**2015**	2014
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	**71**	57
Convertible debentures	**32**	33
Unwinding of discount rates	**10**	9
(Gain) loss on fair value of non-commodity-related derivative financial instruments	**(1)**	2
(Gain) loss on revaluation of conversion feature of convertible debentures	**(40)**	41
Foreign exchange gains and other	**(1)**	(12)
	71	130

Net interest paid of $147 million (2014: $120 million) includes interest paid during construction of $68 million (2014: $44 million).

19. OPERATING SEGMENTS

The Company determines its reportable segments based on the nature of operations and includes four operating segments: Conventional Pipelines, Oil Sands & Heavy Oil, Gas Services and Midstream.

Conventional Pipelines consists of the tariff-based operations of pipelines and related facilities to deliver crude oil, condensate and NGL in Alberta, British Columbia, Saskatchewan, and North Dakota, United States.

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

Gas Services consists of natural gas gathering and processing facilities, including nine shallow and deep cut sweet gas processing plants and gathering systems.

Midstream consists of the Company's interests in extraction and fractionation facilities, terminalling and storage hub services under a mixture of short, medium and long-term contractual arrangements.

The financial results of the business segments are included below. Performance is measured based on results from operating activities, net of depreciation and amortization, as included in the internal management reports that are reviewed by the Company's Chief Executive Officer, Chief Financial Officer and Senior Vice Presidents. The segments' results from operating activities, before depreciation and amortization, are used to measure performance as management believes that such information is the most relevant in evaluating results of certain segments relative to other entities that operate within these industries. Intersegment transactions are recorded at market value and eliminated under corporate and intersegment eliminations.

Year Ended December 31, 2015 (*$ millions*)	**Conventional Pipelines**[(1)(3)]	**Oil Sands & Heavy Oil**	**Gas Services**	**Midstream**[(2)(6)]	**Corporate & Intersegment Eliminations**	**Total**[(7)]
Revenue:						
Pipeline transportation	628	213			(105)	736
Terminalling, storage and hub services				3,690		3,690
Gas Services			209			209
Total revenue	628	213	209	3,690	(105)	4,635
Operating expenses	224	74	64	71	(7)	426
Cost of goods sold, including product purchases[(4)]			1	3,232	(105)	3,128
Realized loss (gain) on commodity-related derivative financial instruments	3			(40)		(37)
Operating margin	401	139	144	427	7	1,118
Depreciation and amortization included in operations[(5)]	88	17	33	107	4	249
Unrealized (gain) loss on commodity-related derivative financial instruments	(1)			4		3
Gross profit	314	122	111	316	3	866
Depreciation included in general and administrative					14	14
Other general and administrative	8	6	7	21	101	143
Other expenses	7	(2)	1	18		24
Reportable segment results from operating activities	299	118	103	277	(112)	685
Net finance costs (income)	3	1	2	(5)	70	71
Reportable segment earnings (loss) before tax	296	117	101	282	(182)	614
Share of loss of investments in equity accounted investees, net of tax				9		9
Capital expenditures	932	28	242	566	43	1,811

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

(2) NGL product and services, terminalling, storage and hub services revenue includes $122 million associated with U.S. midstream sales.

(3) Conventional Pipelines revenue includes $9 million associated with U.S. pipeline sales.

(4) Includes inventory write-down to net realizable value of $12 million recognized in the first six months of 2015.

(5) Includes amortization of intangible assets.

(6) Pembina aggregates its NGL and crude oil midstream activities based on shared economic risk characteristics.

(7) In 2015, one customer accounted for 10 percent of total revenue (2014: no customers).

Year Ended December 31, 2014 *($ millions)*	Conventional Pipelines[1][4]	Oil Sands & Heavy Oil	Gas Services	Midstream[2][6]	Corporate & Intersegment Eliminations	Total
Revenue:						
Pipeline transportation	513	204			(72)	645
Terminalling, storage and hub services				5,259		5,259
Gas Services			165			165
Total revenue	513	204	165	5,259	(72)	6,069
Operating expenses	211	68	58	69	(5)	401
Cost of goods sold, including product purchases[3]				4,672	(72)	4,600
Realized gain on commodity-related derivative financial instruments				(10)		(10)
Operating margin	302	136	107	528	5	1,078
Depreciation and amortization included in operations	42	17	22	135		216
Unrealized gain on commodity-related derivative financial instruments				(14)		(14)
Gross profit	260	119	85	407	5	876
Depreciation included in general and administrative[5]					10	10
Other general and administrative	9	3	6	24	104	146
Other expenses	2	12	1	1	2	18
Reportable segment results from operating activities	249	104	78	382	(111)	702
Net finance costs (income)	5	3	1	(1)	122	130
Reportable segment earnings (loss) before tax	244	101	77	383	(233)	572
Share of loss of investments in equity accounted investees, net of tax				22		22
Capital expenditures	628	41	295	390	58	1,412

[1] 5 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

[2] NGL product and services, terminalling, storage and hub services revenue includes $209 million associated with U.S. midstream sales.

[3] Includes inventory write-down to net realizable value of $38 million recognized at December 31, 2014.

[4] Conventional Pipelines revenue includes $1 million associated with U.S. pipeline sales.

[5] Includes amortization of intangible assets.

[6] Pembina aggregates its NGL and crude oil midstream activities based on shared economic risk characteristics.

20. EARNINGS PER COMMON SHARE

Basic earnings per common share

The calculation of basic earnings per common share at December 31, 2015 was based on the earnings attributable to common shareholders of $355 million (2014: $348 million) and a weighted average number of common shares outstanding of 347 million (2014: 326 million).

Diluted earnings per common share

The calculation of diluted earnings per common share at December 31, 2015 was based on earnings attributable to common shareholders of $355 million (December 31, 2014: $348 million), and weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 348 million (2014: 328 million).

Earnings attributable to common shareholders

Year Ended December 31 *($ millions)*	**2015**	2014
Earnings	**406**	383
Dividends on preferred shares	**(48)**	(31)
Cumulative dividends on preferred shares, not yet declared	**(3)**	(4)
Earnings contributable to common shareholders (basic and diluted)	**355**	348

Weighted average number of common shares

(In millions of shares, except as noted)	**2015**	2014
Issued common shares at January 1	**338**	315
Effect of shares issued	**2**	1
Effect of conversion of convertible debentures	**2**	6
Effect of shares issued under dividend reinvestment plan	**5**	4
Weighted average number of common shares at December 31 (basic)	**347**	326
Dilutive effect of share options on issue	**1**	2
Weighted average number of common shares at December 31 (diluted)	**348**	328
Basic earnings per common share (dollars)	**$1.02**	$1.07
Diluted earnings per common share (dollars)	**$1.02**	$1.06

At December 31, 2015, the effect of the conversion of the convertible debentures was excluded from the diluted earnings per common share calculation as the impact was anti-dilutive. If the convertible debentures were included, an additional 12 million (2014: 17 million) common shares would be added to the weighted average number of common shares and $24 million (2014: $25 million) would be added to earnings, representing after-tax interest expense of the convertible debentures.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

21. PENSION PLAN

December 31 *($ millions)*	**2015**	2014
Registered defined benefit obligation	**14**	11
Supplemental defined benefit obligation	**8**	8
Other accrued benefit obligations	**1**	1
Net employee benefit obligations	**23**	20

The Company maintains a defined contribution plan and non-contributory defined benefit pension plans covering its employees. The Company contributes five to ten percent of an employee's earnings to the defined contribution plan until the employee's age plus years of service equals 50, at which time they become eligible for the defined benefit plans. The Company recognized $5 million in expense for the defined contribution plan during the year (2014: $4 million). The defined benefit plans include a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. The defined benefit plans are administered by a single pension fund that is legally separated from the Company. Benefits under the plans are based on the length of service and the annual average best three years of earnings during the last ten years of service of the employee. Benefits paid out of the plans are not indexed. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation was at December 31, 2013 and the next is planned

for December 31, 2016. The defined benefit plans expose the Company to actuarial risks such as longevity risk, interest rate risk, and market (investment) risk.

Defined benefit obligations

December 31	**2015**		2014	
($ millions)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Present value of unfunded obligations		**8**		8
Present value of funded obligations	**160**		149	
Total present value of obligations	**160**	**8**	149	8
Fair value of plan assets	**146**		138	
Recognized liability for defined benefit obligations	**(14)**	**(8)**	(11)	(8)

The Company funds the defined benefit obligation plans in accordance with government regulations by contributing to trust funds administered by an independent trustee. The funds are invested primarily in equities and bonds. Defined benefit plan contributions totalled $9 million for the year ended December 31, 2015 (2014: $10 million).

The Company has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements of the plans, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, no decrease in the defined benefit asset is necessary at December 31, 2015 (December 31, 2014: nil).

Registered defined benefit pension plan assets comprise

December 31 *(percentages)*	**2015**	2014
Equity securities	**58**	60
Debt	**41**	38
Other	**1**	2
	100	100

Movement in the present value of the defined benefit pension obligation

Year Ended December 31	**2015**		2014	
($ millions)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Defined benefits obligations at January 1	**149**	**8**	119	7
Benefits paid by the plan	**(5)**		(6)	
Current service costs	**11**		8	
Interest expense	**6**		6	
Actuarial (gains) losses in other comprehensive income	**(1)**		22	1
Defined benefit obligations at December 31	**160**	**8**	149	8

Movement in the present value of registered defined benefit pension plan assets

Year Ended December 31 *($ millions)*	**2015**	2014
Fair value of plan assets at January 1	**138**	124
Contributions paid into the plan	**9**	10
Benefits paid by the plan	**(5)**	(6)
Return (loss) on plan assets	**(1)**	4
Interest income	**5**	6
Fair value of registered plan assets at December 31	**146**	138

Expense recognition in earnings

Registered Plan		
Year Ended December 31 *($ millions)*	**2015**	2014
Current service costs	**11**	8
Interest on obligation	**6**	6
Expected return on plan assets	**(6)**	(6)
	11	8

The expense is recognized in the following line items in the statement of comprehensive income:

Year Ended December 31 *($ millions)*	**2015**	2014
Registered Plan		
Operating expenses	**5**	4
General and administrative expense	**6**	4
	11	8

Expense recognized for the Supplemental Plan was less than one million for each of the years ended December 31, 2015 and 2014.

Actuarial gains and losses recognized in other comprehensive income

	2015			2014		
($ millions)	**Registered Plan**	**Supplemental Plan**	**Total**	Registered Plan	Supplemental Plan	Total
Balance at January 1	**(21)**	**(1)**	**(22)**	(7)	(1)	(8)
Remeasurements gain:						
Actuarial gain (loss) arising from						
Demographic assumptions	**(1)**		**(1)**			
Financial assumptions	**2**		**2**	(15)		(15)
Experience adjustments	**1**		**1**	(2)		(2)
Return (loss) on plan assets excluding interest income	**(1)**		**(1)**	3		3
Recognized during the period after tax	**1**		**1**	(14)		(14)
Balance at December 31	**(20)**	**(1)**	**(21)**	(21)	(1)	(22)

Principal actuarial assumptions used:

December 31 (weighted average percent)	**2015**	2014
Discount rate	**4.1**	4.0
Future pension earning increases	**4.0**	4.0

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined plans are as follows:

December 31 *(years)*	**2015**	2014
Longevity at age 65 for current pensioners		
Males	**21.5**	21.4
Females	**24.0**	23.9
Longevity at age 65 for current member aged 45		
Males	**22.6**	22.6
Females	**25.0**	24.9

The calculation of the defined benefit obligation is sensitive to the discount rate, compensation increases, retirements and termination rates as set out above. An increase or decrease of the estimated discount rate of 4.1 percent by 100 basis points at December 31, 2015 is considered reasonably possible in the next financial year but would not have a material impact on the obligation.

The Company expects to contribute $9 million to the defined benefit plans in 2016.

22. SHARE-BASED PAYMENTS

At December 31, 2015, the Company has the following share-based payment arrangements:

Share option plan (equity settled)

The Company has a share option plan under which employees are eligible to receive options to purchase shares in the Company.

Long-term share unit award incentive plan (cash-settled)

In 2005, the Company established a long-term share unit award incentive plan. Under the share-based compensation plan, awards of restricted (RSU) and performance (PSU) share units are made to officers, non-officers and directors. The plan results in participants receiving cash compensation based on the value of the underlying notional shares granted under the plan. Payments are based on a trading value of the Company's common shares plus notional dividends and performance of the Company.

Terms and conditions of share option plan and share unit award incentive plan

The terms and conditions relating to the grants of the share option program and the long-term share unit award incentive plans are listed in the tables below:

Grant date share options granted to employees *(thousands of options, except as noted)*	**Number of options**	**Contractual life of options**
January 2, 2014	101	7 years
March 12, 2014	409	7 years
April 1, 2014	91	7 years
September 18, 2014	2,985	7 years
November 20, 2014	3,110	7 years
March 9, 2015	777	7 years
July 2, 2015	127	7 years
October 5, 2015	50	7 years
December 21, 2015	6	7 years

One-third vest on the first anniversary of the grant date, one-third vest on the second anniversary of the grant date, and one-third vest on the third anniversary of the grant date.

Long-term share unit award incentive plan[1]

Grant date RSUs and PSUs to Officers, Non-Officers[2] and Directors *(thousands of units, except as noted)*	**PSUs**	**RSUs**	**Contractual life**
January 1, 2014	227	256	3 years
January 1, 2015	252	243	3 years

PSUs vest on the third anniversary of the grant date. Actual PSUs awarded based on the trading value of the shares and performance of the Company. RSUs vest one-third on the first anniversary of the grant date, one-third on the second anniversary of the grant date, and one-third on the third anniversary of the grant date.

[1] Distribution Units are granted in addition to RSU and PSU grants based on notional accrued dividends from RSU and PSU granted but not paid.

[2] Non-Officers defined as senior selected positions within the Company.

Disclosure of share option plan

The number and weighted average exercise prices of share options as follows:

(thousands of options, except as noted)	**Number of Options**	**Weighted Average Exercise Price (dollars)**
Outstanding at December 31, 2013	4,199	$27.65
Granted	6,696	$46.83
Exercised	(792)	$25.11
Forfeited	(343)	$39.23
Outstanding as at December 31, 2014	9,760	$40.60
Granted	960	$40.67
Exercised	(331)	$25.50
Forfeited	(383)	$44.12
Outstanding as at December 31, 2015	10,006	$40.98

As of December 31, 2015, the following options are outstanding:

(thousands of options, except as noted) Exercise Price *(dollars)*	Number outstanding at December 31, 2015	Options Exercisable	Weighted average remaining life
$14.84 – $19.99	238	238	1.60 years
$20.00 – $29.99	1,308	1,281	3.28 years
$30.00 – $39.99	1,857	993	4.67 years
$40.00 – $52.01	6,603	1,920	5.85 years
	10,006	4,432	5.20 years

The weighted average share price at the date of exercise for share options exercised in the year ended December 31, 2015 was $37.58 (December 31, 2014: $45.32).

Expected volatility is estimated by considering historic average share price volatility. The weighted average inputs used in the measurement of the fair values at grant date of share options are the following:

Share options granted

Year Ended December 31 *(dollars, except as noted)*	**2015**	2014
Weighted average		
Fair value at grant date	**3.28**	4.77
Share price at grant date	**39.62**	47.32
Exercise price	**40.67**	46.83
Expected volatility *(percent)*	**21.4**	19.1
Expected option life *(years)*	**3.67**	3.67
Expected annual dividends per option	**1.83**	1.74
Expected forfeitures *(percent)*	**7.3**	7.8
Risk-free interest rate (based on government bonds)*(percent)*	**0.7**	1.3

Disclosure of long-term share unit award incentive plan

The long-term share unit award incentive plan was valued using the volume weighted average price for 20 days ending December 31, 2015 of $29.71 (2014: $39.47). Actual payment may differ from amount valued based on market price and company performance.

Long-term share unit award incentive units granted

Year Ended December 31 *(thousands of share units)*	**2015**	2014
Number of share units granted	**495**	482

Employee expenses

Year Ended December 31 *($ millions)*	**2015**	2014
Share option plan, equity settled	**16**	6
Long-term share unit award incentive plan	**9**	33
Share-based compensation expense	**25**	39
Total carrying amount of liabilities for cash settled arrangements	**32**	52
Total intrinsic value of liability for vested benefits	**20**	29

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Risk Management

Pembina has exposure to counterparty credit risk, liquidity risk and market risk. Pembina recognizes that effective management of these risks is a critical success factor in managing organization and shareholder value.

Risk management strategies, policies and limits ensure risks and exposures are aligned to Pembina's business strategy and risk tolerance. The Company's Board of Directors is responsible for providing risk management oversight at Pembina. The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of this risk framework in relation to the risks faced by the Company. Internal audit personnel assist the Audit Committee in its oversight role by monitoring and evaluating the effectiveness of the organization's risk management system.

Counterparty credit risk

Counterparty credit risk represents the financial loss the Company would experience if a counterparty to a financial instrument failed to meet its contractual obligations in accordance with the terms and conditions of the

financial instruments with the Company. Counterparty credit risk arises primarily from the Company's cash and cash equivalents, trade and other receivables, and from counterparties to its derivative financial instruments. The carrying amount of the Company's cash and cash equivalents, trade and other receivables and derivative financial instruments represents the maximum counterparty credit exposure, without taking into account security held.

The Company manages counterparty credit risk through established credit management techniques, including conducting comprehensive financial and other assessments for all new counterparties and regular reviews of existing counterparties to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits and obtaining financial assurances where warranted. The Company utilizes various sources of financial, credit and business information in assessing the creditworthiness of a counterparty including external credit ratings, where available, and in other cases, detailed financial statement analysis in order to generate an internal credit rating based on quantitative and qualitative factors. The establishment of counterparty exposure limits is governed by a Board of Directors designated counterparty exposure limit matrix which represents the maximum dollar amounts of counterparty exposure by debt rating that can be approved for a counterparty. The Company continues to closely monitor and reassess the creditworthiness of its counterparties, which has resulted in the Company reducing or mitigating its exposure to certain counterparties where it was deemed warranted and permitted under contractual terms.

Financial assurances may include guarantees, letters of credit and cash. Letters of credit are held on $68 million (December 31, 2014: $41 million) of the trade receivables balance.

Typically, the Company has collected its trade receivables in full and at December 31, 2015, 87 percent were current (2014: 85 percent). Management defines current as outstanding accounts receivable past due and under 30 days. The Company has a general lien and a continuing and first priority security interest in, and a secured charge on, all of a shipper's petroleum in its custody.

At December 31, the aging of trade and other receivables was as follows:

Past Due	**2015**	2014
31-60 days past due	**3**	2
61-90 days past due	**2**	4
Greater than 91 days	**9**	17
	14	23

Management believes the unimpaired amounts that are past due by greater than 30 days are fully collectible based on customer payment history and management’s assessment of counterparty credit risk through established credit management techniques as discussed above. At December 31, 2015, the allowance for doubtful accounts amounted to $1 million, an increase of $1 million from December 31, 2014. Pembina recognized $1 million in bad debt expense during 2015 (2014: nil).

The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company believes these measures minimize its counterparty credit risk but there is no certainty that they will protect it against all material losses. As part of its ongoing operations, the Company must balance its market and counterparty credit risks when making business decisions.

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The following are the contractual maturities of financial liabilities, including estimated interest payments.

			Outstanding balances due by period			
December 31, 2015 *($ millions)*	Carrying Amount	Expected Cash Flows	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Trade payables and accrued liabilities	567	567	567			
Loans and borrowings	3,180	5,284	144	287	561	4,292
Convertible debentures	143	178	10	168		
Dividends payable	57	57	57			
Derivative financial liabilities	30	30	10	20		
Finance leases	14	14	6	7	1	

The Company manages its liquidity risk by forecasting cash flows over a 12 month rolling time period to identify financing requirements. These financing requirements are then addressed through a combination of credit facilities and through access to capital markets, if required.

Market risk

Pembina's results are subject to movements in commodity prices, foreign exchange and interest rates. A formal Risk Management Program including policies and procedures has been designed to mitigate these risks.

a. Commodity price risk

Pembina's Midstream business includes product storage, terminalling, hub services, and cross-commodity and product quality trading activities. These activities expose Pembina to certain risks including that Pembina may experience volatility in revenue due to fluctuations in commodity prices. Primarily, Pembina enters into contracts to purchase and sell commodities at floating market prices. The prices of products that are marketed by Pembina are subject to volatility as a result of such factors as seasonal demand changes, extreme weather conditions, general economic conditions, changes in commodity markets and other factors. Pembina manages its risk exposure by balancing purchases and sales to lock-in margins. Notwithstanding Pembina's management of price and quality risk, marketing margins for crude oil can vary and have varied significantly from period to period. This variability could have an adverse effect on the results of Pembina's commercial Midstream business and its overall results of operations. To assist in effectively smoothing that variability inherent in this business, Midstream is investing in assets that have a fee-based revenue component, and is looking to expand this area going forward.

The Midstream business is also exposed to possible price declines between the time Pembina purchases NGL feedstock and sells NGL products, and to decreasing frac spreads. Frac spread is the difference between the selling prices for NGL products and the cost of NGL sourced from natural gas and acquired at natural gas related prices. Frac spreads can change significantly from period to period depending on the relationship between crude oil and natural gas prices (the "frac spread ratio"), absolute commodity prices, and changes in the Canadian to U.S. dollar foreign exchange rate. There is also a differential between NGL product prices and crude oil prices which can change margins realized for midstream products separate from frac spread ratio changes. The amount of profit or loss made on the extraction portion of the NGL midstream business will generally increase or decrease with frac spreads. This exposure could result in variability of cash flow generated by the NGL midstream business, which could affect Pembina and the cash dividends of Pembina.

Pembina responds to commodity price risk by using an active Risk Management Program to fix revenues to pay for a minimum of 50 percent of the fixed committed term natural gas supply costs. Pembina’s fixed committed natural gas supply can vary from year to year based on industry dynamics. Additionally Pembina's Midstream business is also exposed to variability in quality, time and location differentials and the Company may also utilize financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price risk as a result of these activities. The Company does not trade financial instruments for speculative purposes.

b. Foreign exchange risk

Certain of Pembina's cash flows, namely a portion of its commodity-related cash flows as well as certain U.S.-based infrastructure assets, are subject to currency risk, primarily arising from the denomination of specific cash flows in U.S. dollars. Additionally, an immaterial portion of Pembina's capital expenditures may also be denominated in U.S. dollars. Pembina responds to this risk using an active Risk Management Program to exchange foreign currency for domestic currency at a fixed rate.

c. Interest rate risk

Pembina has floating interest rate debt which subjects the Company to interest rate risk. Pembina responds to this risk under the active Risk Management Program to enter into financial derivative contracts to fix interest rates.

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was:

Carrying Amounts of Financial Liability		
December 31 *($ millions)*	**2015**	2014
Fixed rate instruments	**3,155**	1,964
Variable rate instruments	**25**	506
	3,180	2,470

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have (increased) decreased earnings by the amounts shown below. This analysis assumes that all other variables remain constant.

December 31 *($ millions)*	**2015**	2014
	± 100 bps	± 100 bps
Variable rate instruments	**+ 0**	± 5
Interest rate swap	**+ 0**	± 1
Earnings sensitivity (net)	**+ 0**	± 6

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

December 31	2015		2014	
($ millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets carried at fair value				
Derivative financial instruments	**14**	**14**	52	52
Financial assets carried at amortized cost				
Cash and cash equivalents	**28**	**28**	53	53
Trade and other receivables	**514**	**514**	441	441
Other assets	**11**	**11**	6	6
	553	**553**	500	500
Financial liabilities carried at fair value				
Derivative financial instruments	**30**	**30**	117	117
Financial liabilities carried at amortized cost				
Trade payables and accrued liabilities	**567**	**567**	550	550
Taxes payable			58	58
Dividends payable	**57**	**57**	49	49
Loans and borrowings	**3,180**	**3,261**	2,470	2,590
Convertible debentures	**143(1)**	**167**	391(1)	592
	3,947	**4,052**	3,518	3,839

(1) Carrying amount excludes conversion feature of convertible debentures.

The basis for determining fair values is disclosed in Note 5.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus and adequate credit spread, and were as follows:

December 31 *(percents)*	**2015**	2014
Derivatives	**0.8 - 1.0**	1.3 - 2.1
Loans and borrowings	**2.3 – 5.4**	2.7 - 4.8

Fair value of power derivatives are based on market rates reflecting forward curves.

Fair value hierarchy

The fair value of financial instruments carried at fair value is classified according to the following hierarchy based on the amount of observable inputs used to value the instruments.

Level 1: Unadjusted quoted prices are available in active markets for identical assets or liabilities as the reporting date. Pembina does not use Level 1 inputs for any of its fair value measurements.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Instruments in this category include non-exchange traded derivatives such as

over-the-counter physical forwards and options, including those that have prices similar to quoted market prices. Pembina obtains quoted market prices for its inputs from information sources including banks, Bloomberg Terminals and Natural Gas Exchange. All of Pembina's significant financial instruments carried at fair value are valued using Level 2 inputs.

The following table is a summary of the net derivative financial instruments, which is consistent with the gross balances:

	2015					2014				
December 31 *($ millions)*	**Current Asset**	**Non-Current Asset**	**Current Liability**	**Non-Current Liability**	**Total**	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	Total
Commodity, power, storage and rail financial instruments	**14**		**(6)**	**(1)**	**7**	52		(40)	(2)	10
Interest rate			**(3)**	**(5)**	**(8)**			(2)	(6)	(8)
Foreign exchange			**(1)**		**(1)**			(2)		(2)
Conversion feature of convertible debentures (Note 13)				**(14)**	**(14)**				(65)	(65)
Net derivative financial instruments	**14**		**(10)**	**(20)**	**(16)**	52		(44)	(73)	(65)

Sensitivity analysis

The following table shows the impact on earnings if the underlying risk variables of the derivative financial instruments changed by a specified amount, with other variables held constant.

December 31, 2015 *($ millions)*		**+ Change**	**- Change**
Frac spread related			
Natural gas	(AECO +/- $0.25 per GJ)	1	(1)
NGL (includes propane, butane and condensate)	(Belvieu +/- U.S. $0.10 per gal)	(3)	3
Foreign exchange (U.S.$ vs. Cdn$)	(FX rate +/- $0.20)	(1)	1
Product margin			
Crude oil	(WTI +/- $2.50 per bbl)	(3)	3
NGL (includes condensate)	(Belvieu +/- U.S. $0.10 per gal)	1	(1)
Corporate			
Interest rate	(Rate +/- 50 basis points)	1	(1)
Power	(AESO +/- $5.00 per MW/h)	2	(2)
Conversion feature of convertible debentures	(Pembina share price +/- $0.50 per common share)	(1)	1

24. OPERATING LEASES

Leases as lessee

Operating lease rentals are payable as follows:

December 31 *($ millions)*	**2015**	2014
Less than 1 year	**91**	50
Between 1 and 5 years	**396**	291
More than 5 years	**424**	392
	911	733

The Company leases a number of offices, warehouses, vehicles, land and rail cars under operating leases. The leases run for a period of one to twelve years, with an option to renew the lease after that date. The Company has

sublet office space up to 2027 and has contracted sub-lease payments for a minimum of $105 million over the term. The amounts shown in the table above are presented gross.

25. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to provide a stable stream of dividends to shareholders that is sustainable over the long-term. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of its underlying asset base and based on requirements arising from significant capital development activities. Pembina manages and monitors its capital structure and short-term financing requirements using Non-GAAP measures; the ratios of debt to EBITDA, debt to total enterprise value, adjusted cash flow to debt and debt to equity. The metrics are used to measure the Company's overall debt position and measure the strength of the Company's balance sheet. The Company remains satisfied that the leverage currently employed in the Company's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new equity or debt issuances, as required.

The Company maintains a conservative capital structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. The Company funds its operating commitments, short-term capital spending as well as its dividends to shareholders through this cash flow, while new borrowing and equity issuances are primarily reserved for the support of specific significant development activities. The capital structure of the Company consists of shareholder's equity plus long-term liabilities. Long-term debt is comprised of bank credit facilities, unsecured notes, finance lease obligations and convertible debentures.

Pembina is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants as of December 31, 2015.

Note 15 of these financial statements shows the change in Share Capital for the year ended December 31, 2015.

26. GROUP ENTITIES

Significant subsidiaries

	Ownership Interest	
December 31 *(percentages)*	**2015**	2014
Pouce Coupe Pipe Line Ltd.	**100**	100
Plateau Pipe Line Ltd.	**100**	100
Pembina Marketing Ltd.	**100**	100
Pembina Gas Services Ltd.	**100**	100
Pembina Pipeline	**100**	100
Pembina Gas Services Limited Partnership	**100**	100
Pembina Oil Sands Pipeline LP	**100**	100
Pembina Midstream Limited Partnership	**100**	100
Pembina NGL Corporation	**100**	100
Pembina Facilities NGL LP	**100**	100
Pembina Midstream Inc.	**100**	100
Pembina Infrastructure and Logistics LP	**100**	100
Pembina Empress NGL Partnership	**100**	100
Pembina Resource Services Canada	**100**	100
Pembina Resource Services (U.S.A.)	**100**	100
Pembina Prairie Facilities Holdco Ltd.	**100**	100
Pembina Prairie Facilities Ltd.	**100**	100

27. RELATED PARTIES

All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

Key management personnel and director compensation

Key management consists of the Company's directors and certain key officers.

Compensation

In addition to short-term employee benefits – including salaries, director fees and short term incentives – the Company also provides key management personnel with share-based compensation, contributes to post employment pension plans and provides car allowances, parking and business club memberships.

Key management personnel compensation comprised:

Year Ended December 31 *($ millions)*	**2015**	2014
Short-term employee benefits	**5**	5
Share-based compensation and other	**5**	8
Total compensation of key management	**10**	13

Transactions

Key management personnel and directors of the Company control less than one percent of the voting common shares of the Company (consistent with the prior year). Certain directors and key management personnel also hold Pembina convertible debentures and preferred shares. Dividend and interest payments received for the common shares and debentures held are commensurate with other non-related holders of those instruments.

Certain officers are subject to employment agreements in the event of termination without just cause or change of control.

Post-employment benefit plans

Pembina has significant influence over the pension plans for the benefit of their respective employees. No balance payable is outstanding at December 31, 2015 (December 31, 2014: nil).

Transactions

($ millions)		Transaction Value Year Ended December 31	
Post-employment benefit plan	Transaction	**2015**	2014
Defined benefit plan	Funding	**9**	10

28. ACQUISITION

On October 24, 2014, the acquisition date, Pembina acquired the Vantage pipeline system ("Vantage") and Mistral Midstream Inc.'s ("Mistral") interest in the Saskatchewan Ethane Extraction Plant ("SEEP") for total consideration of $733 million (U.S.$653 million).

The purchase price equation is based on assessed fair values and is as follows:

($ millions)	
Cash	10
Trade receivables and other	4
Property, plant and equipment	451
Intangible assets	204
Goodwill	137
Other long-term assets	2
Trade payables and accrued liabilities	(23)
Deferred tax liabilities	(52)
	733

The purchase price equation was finalized during the first quarter of 2015. Goodwill as originally presented was $130 million; adjustments to goodwill in the table above are due to the recognition of additional deferred tax liabilities of $11 million and property, plant and equipment of $4 million.

29. SUBSEQUENT EVENTS

On January 15, 2016, Pembina issued 6.8 million cumulative redeemable minimum rate reset class A Series 11 Preferred Shares for aggregate gross proceeds of $170 million. Dividends on the Series 11 Preferred Shares are expected to be $0.359375 quarterly, or $1.4375 per share on an annualized basis, payable on the 1st day of March, June, September and December, as and when declared by the Board of Directors of Pembina, for the initial fixed rate period to, but excluding, March 1, 2021.

Holders of the Series 11 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred Shares, Series 12 ("Series 12 Preferred Shares"), subject to certain conditions, on March 1, 2021 and on March 1 of every fifth year thereafter. Holders of Series 12 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day government of Canada bond yield plus 5.00 percent, if, as and when declared by the Board of Directors of Pembina.

Concurrently with closing the issuance of the Series 11 Preferred Shares, the Board of Directors declared the initial quarterly dividend for the Series 11 Preferred Shares in the amount of $0.1812, for the period from January 15, 2016 to March 1, 2016. The dividend will be payable on March 1, 2016, to shareholders of record on February 1, 2016.

HEAD OFFICE

Pembina Pipeline Corporation
Suite 4000, 585 – 8th Avenue SW
Calgary, Alberta T2P 1G1

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

TRUSTEE, REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Suite 600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8
1.800.564.6253

STOCK EXCHANGE

Pembina Pipeline Corporation

Toronto Stock Exchange listing symbols for:

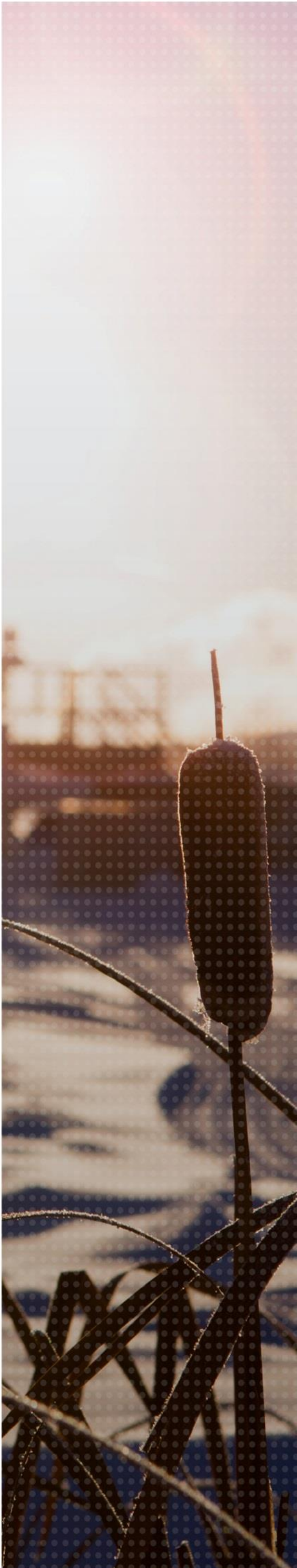
COMMON SHARES PPL
CONVERTIBLE DEBENTURES PPL.DB.F
PREFERRED SHARES PPL.PR.A, PPL.PR.C, PPL.PR.E, PPL.PR.G, PPL.PR.I, PPL.PR.K

New York Stock Exchange listing symbol for:

COMMON SHARES PBA

INVESTOR INQUIRIES

PHONE 403.231.3156
FAX 403.237.0254
TOLL FREE 1.855.880.7404
EMAIL investor-relations@pembina.com
WEBSITE www.pembina.com



Pembina Pipeline Corporation

www.pembina.com