PEMBINA PIPELINE CORPORATION

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2011

March 23, 2012

NOTICE TO READER

Effective October 1, 2010, Pembina Pipeline Income Fund (the "**Fund**") and Pembina Pipeline Corporation (the "**Corporation**") completed the plan of arrangement pursuant to which all of the outstanding trust units of the Fund ("**Trust Units**") were converted into common shares of the Corporation. This resulted in the conversion of the Fund to a corporate entity, being the Corporation, which has continued as a successor issuer to the Fund (the "**Conversion**"). As the Board of Directors of the Corporation managed the business and affairs of the Fund prior to the Conversion, the Conversion had no effect on the overall corporate governance of the business of Pembina. The decision to convert to a corporate entity resulted from a 2006 Government of Canada decision that introduced legislation designed to change the taxation of income trusts. By converting into a corporation, Pembina has avoided the imposition of a specified-investment flow through tax applicable beginning 2011. In this Annual Information Form, any references to "**Pembina**" when used in a historical context prior to October 1, 2010 refer to the Fund and its consolidated subsidiaries, and when used in the present tense, prospectively or for periods on or after October 1, 2010, those terms refer to Pembina Pipeline Corporation and its consolidated subsidiaries.

Prior to the Conversion, the Fund paid distributions to the holders of its outstanding Trust Units and, following the Conversion, the Corporation pays dividends to the holders of its outstanding common shares, if, as and when declared thereon by the Board of Directors of the Corporation.

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GLOSSARY OF TERMS

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

"**2010 Convertible Debentures**" means the 7.35% convertible unsecured subordinated debentures which matured on December 31, 2010;

"**2011 Option Plan**" means the stock option plan of the Corporation dated May 26, 2011;

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

"**Administration Agreement**" means the administration agreement between the Manager and the Fund dated September 4, 1997, as amended April 30, 1999, and terminated effective October 1, 2010 pursuant to which the Manager provided certain administrative services to the Fund prior to the Management Internalization. See "*General Developments of Pembina – Management Internalization*";

"**Alberta Pipelines**" means those pipelines servicing the conventional oil and NGL production in Alberta including the Peace Pipeline, the Northern Pipeline, the Drayton Valley Pipeline, the Swan Hills Pipeline, the Brazeau/Caroline Pipeline, the Miscible Flood Pipeline, the Bonnie Glen Pipeline and the Wabasca Pipeline;

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

"**Arrangement**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Other Matters – Announcement of Acquisition of Provident Energy Ltd.*";

"**Arrangement Agreement**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Other Matters – Announcement of Acquisition of Provident Energy Ltd.*";

"**AUC**" means the Alberta Utilities Commission of the Government of Alberta;

"**Baptiste Truck Terminal**" means the clean oil truck terminal facility serving Cardium producers in the Willesden Green area, which is connected to the Drayton Valley Pipeline system;

"**Base Shelf Prospectus**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2009 and 2010*";

"**B.C. Pipelines**" means the NEBC Pipeline and the Western Pipeline;

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

"**Brazeau/Caroline Pipeline**" means the approximately 250 kilometre pipeline system and related facilities delivering NGL from natural gas processing plants southwest of Edmonton, Alberta and from Caroline, Alberta to the Bonnie Glen Pipeline or to Fort Saskatchewan, Alberta;

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

"**CNRL**" means Canadian Natural Resources Limited;

"**Cheecham Lateral**" means the 56 kilometre lateral pipeline and related facilities delivering SCO from an existing pump station on the Syncrude Pipeline to a terminalling facility located near Cheecham, Alberta;

"**Common Shares**" means the common shares of the Corporation;

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

"**Convertible Debentures**" means the 5.75% convertible unsecured subordinated debentures which, subject to prior redemption or conversion, mature November 30, 2020, all of which are described in greater detail in Note 13 to the Corporation's audited consolidated financial statements for the year ended December 31, 2011;

"**Convertible Debenture Indenture**" means the indenture dated November 24, 2010 between the Corporation and Computershare Trust Company of Canada;

"**Corporation**" means Pembina Pipeline Corporation, an ABCA corporation and, unless the context otherwise requires, includes its consolidated subsidiaries;

"**Corporate Conversion**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Cremona Pipeline**" means the approximately 340 kilometre pipeline system delivering crude oil, condensate and butane from northwest of Calgary, Alberta to either the Rangeland Pipeline or to Bowden, Alberta, which was sold by Pembina in December of 2009. See "*General Developments of Pembina – Developments in 2009 and 2010*";

"**Cutbank Complex**" means PGS Limited Partnership's interest in the interconnected sweet gas processing facilities comprising the Cutbank Gas Plant, the Musreau Gas Plant and the Kakwa Gas Plant and the associated pipelines and compressors and the agreements related thereto;

"**Cutbank Gas Plant**" means the facility owned 100% by PGS Limited Partnership located at 07-16-062-08 W6M;

"**Declaration of Trust**" means the declaration of trust dated September 4, 1997, as amended and restated April 30, 1999 and as further amended and restated October 1, 2010, pursuant to which the Fund was created;

"**Directors**" means the directors of the Corporation from time to time;

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

"**Drayton Valley Pipeline**" means the approximately 1,250 kilometre pipeline system and related facilities delivering crude oil and condensate production to Edmonton, Alberta from the area southwest of Edmonton, Alberta;

"**ERCB**" means the Energy Resources Conservation Board of the Government of Alberta;

"**Executive LTIP**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Fund**" means Pembina Pipeline Income Fund, an unincorporated open-ended single purpose trust established under the laws of Alberta pursuant to the Declaration of Trust and dissolved pursuant to the Corporate Conversion on October 1, 2010;

"**Fund DRIP**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Fund Option Plan**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Fund Options**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Horizon Pipeline**" means the approximately 500 kilometre pipeline system and related facilities designed to deliver SCO from the Horizon Project into the Edmonton, Alberta area, which was completed in 2008. See "*Description of Pembina's Business and Operations – Overview – Oil Sands & Heavy Oil – Horizon Pipeline*";

"**Horizon Project**" means CNRL's Horizon Oil Sands Project located approximately 70 kilometres north of Fort McMurray, Alberta;

"**Internalization Agreement**" means the share purchase agreement dated June 30, 2006 among the Corporation and the former shareholders of the Manager pursuant to which the Management Internalization was completed. See "*General Developments of Pembina – Management Internalization*";

"**Kakwa Gas Plant**" means the facility jointly owned by EnCana Corporation and PGS Limited Partnership, each as to an undivided 50% interest, located at 01-35-060-05 W6M;

"**LaGlace Full Service Terminal**" means the full service truck terminal in which Pembina owns an interest with an industry partner and which provides for emulsion treating, produced water handling and water disposal located approximately 40 kilometres northwest of Grande Prairie, Alberta in the LaGlace area, and connected to the Peace Pipeline system;

"**Management Agreement**" means the agreement between the Corporation and the Manager dated October 24, 1997, as amended and restated July 1, 2001 and June 30, 2006, and terminated effective October 1, 2010 pursuant to which the Manager provided management services to the Corporation and the other operating subsidiaries of the Fund prior to the Management Internalization. See "*General Developments of Pembina – Management Internalization*";

"**Management Internalization**" has the meaning ascribed thereto under "*General Developments of Pembina – Management Internalization*";

"**Manager**" means Pembina Management Inc., an ABCA corporation that was wound down effective December 31, 2011 and was owned by the Corporation and which, prior to the Management Internalization was owned by the executive officers of the Corporation and which was the administrator of the Fund pursuant to the Administration Agreement and provided management services to the Corporation and the other operating subsidiaries of the Fund pursuant to the Management Agreement. See "*General Developments of Pembina – Management Internalization*";

"**Medium Term Note Indenture**" means the indenture dated March 29, 2011 between the Corporation, Pouce Coupé Pipe Line Ltd., Plateau Pipe Line Ltd., Alberta Oil Sands Pipeline Ltd., Pembina Pipeline (an Alberta partnership), Pembina North Limited Partnership, Pembina West Limited Partnership, Pembina Oil Sands Pipeline L.P., Pembina Marketing Ltd., Pembina Midstream Limited Partnership, Pembina Gas Services Ltd., Pembina Gas Services Limited Partnership and Computershare Trust Company of Canada, providing for the issuance of the Medium Term Notes;

"**Medium Term Notes**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012– Other Matters – Medium Term Note Offering*";

"**Miscible Flood Pipeline**" means the approximately 270 kilometre pipeline system and related facilities that delivered NGL from Fort Saskatchewan, Alberta and Judy Creek, Alberta to miscible flood projects in northwestern Alberta, which has now been redeployed to heavy oil service. See "*Description of Pembina's Business and Operations – Overview – Conventional Pipelines*";

"**Mitsue Pipeline**" means the pipeline system and related facilities that Pembina has constructed pursuant to the Mitsue TSAs and which consists of a combination of newly constructed and existing six inch and eight inch diameter pipeline and related facilities with a current design capacity up to 22,000 bpd, and a potential expansion capacity of up to 45,000 bpd (subject to confirmed customer support and regulatory approval for such expansion), of condensate transportation service for product received at Whitecourt, Alberta and delivered to Utikuma, Alberta for use as a diluent for heavy oil. See "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Oil Sands & Heavy Oil – Nipisi Pipeline and Mitsue Pipeline*";

"**Mitsue TSAs**" means the transportation service agreements entered into among Pembina, Pembina Pipeline, Cenovus Energy Inc. (formerly EnCana Corporation), CNRL and Pembina Midstream Limited Partnership in respect of the Mitsue Pipeline. See "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Oil Sands & Heavy Oil – Nipisi Pipeline and Mitsue Pipeline*";

"**Musreau Deep Cut Facility**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Gas Services – Expansion at the Cutbank Complex's Musreau Gas Plant*";

"**Musreau Gas Plant**" means the Musreau A and Musreau C trains, owned 100% by PGS Limited Partnership, and the Musreau B train, jointly owned by ConocoPhillips Canada (BRC) Partnership and PGS Limited Partnership, each as to an undivided 50% interest, located at 04-25-062-06 W6M;

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

"**NEBC Pipeline**" means the approximately 580 kilometre pipeline system and related facilities delivering crude oil and condensate from northeastern British Columbia and northwestern Alberta to Taylor, British Columbia;

"**Nipisi Pipeline**" means the pipeline system and related facilities that Pembina has constructed pursuant to the Nipisi TSAs and which consists of a combination of newly constructed and existing 16 inch, 20 inch and 24 inch diameter pipeline and related facilities with a current design capacity of 100,000 bpd, and a potential expansion capacity of up to 200,000 bpd (subject to confirmed customer support and regulatory approval for such expansion), of blended heavy oil transportation service for product received at Utikuma, Alberta and delivered to Edmonton, Alberta. See "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Oil Sands & Heavy Oil – Nipisi Pipeline and Mitsue Pipeline*";

"**Nipisi TSAs**" means the transportation service agreements entered into among Pembina, POSP Limited Partnership, Cenovus Energy Inc. (formerly EnCana Corporation), CNRL and Pembina Midstream Limited Partnership in respect of the Nipisi Pipeline. See "*General Developments of Pembina – Developments in 2011 and Year to Date 2012– Oil Sands & Heavy Oil – Nipisi Pipeline and Mitsue Pipeline*";

"**NGL Expansion**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Conventional Pipelines – Expansion of NGL Pipeline Transportation Capacity*".

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

"**Northern Pipeline**" means the approximately 650 kilometre pipeline system and related facilities delivering NGL from Taylor, British Columbia to Fort Saskatchewan, Alberta;

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

"**Option**" means an option to purchase Common Shares granted under the 2011 Option Plan;

"**Peace Pipeline**" means the approximately 2,050 kilometre pipeline system and related facilities delivering light crude oil, condensate, propane mix (C_3+) and ethane mix (C_2+) from northeastern British Columbia and northwestern Alberta to Edmonton, Alberta and to Fort Saskatchewan, Alberta;

"**Peace/Northern NGL System**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Conventional Pipelines – Expansion of NGL Pipeline Transportation Capacity*";

"**Pembina Meeting**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Other Matters – Announcement of Acquisition of Provident Energy Ltd.*";

"**Pembina Nexus Terminal**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2009 and 2010*";

"**PPC DRIP**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Preferred Shares**" has the meaning ascribed thereto under "*Description of the Capital Structure of the Corporation – Preferred Shares*";

"**PGS Limited Partnership**" means Pembina Gas Services Limited Partnership, a limited partnership formed under the laws of the Province of Alberta that is a wholly–owned subsidiary of the Corporation;

"**POSP Limited Partnership**" means Pembina Oil Sands Pipeline L.P., a limited partnership formed under the laws of the Province of Alberta that is a wholly–owned subsidiary of the Corporation;

"**Provident**" means Provident Energy Ltd.;

"**Provident Debentures**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Other Matters – Announcement of Acquisition of Provident Energy Ltd.*";

"**Provident Shares**" means the common shares of Provident;

"**Provident Meeting**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Other Matters – Announcement of Acquisition of Provident Energy Ltd.*";

"**Resthaven Facility**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Gas Services – Resthaven Facility*";

"**Rimbey Truck Terminal**" means the clean oil truck terminal facility in which Pembina owns an interest with an industry partner, which is connected to the Bonnie Glen Pipeline system;

"**RTU Plan**" has the meaning ascribed thereto under "*Pembina Pipeline Corporation – Corporate Conversion*";

"**Saturn Facility**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Gas Services – Saturn Facility*";

"**SCADA**" means supervisory control and data acquisition. See "*Description of Pembina's Business and Operations – Information and Communication Systems*";

"**SCO**" means synthetic crude oil;

"**Secured Senior Notes**" means the $100 million aggregate principal amount of senior secured notes due 2017 and bearing interest at 7.38% per annum issued by the Corporation on a private placement basis in July 2002, of which $58 million principal amount were outstanding as of December 31, 2011;

"**Senior Notes**" means, collectively, the Secured Senior Notes, the Unsecured Senior Notes, the Series C Senior Notes and the Series D Senior Notes;

"**Series C Senior Notes**" means the $200 million aggregate principal amount of unsecured senior notes of the Corporation issued September 30, 2006 and due September 30, 2021 and which bear interest at a fixed rate of 5.58% per annum;

"**Series D Senior Notes**" means the $267 million aggregate principal amount of unsecured senior notes of the Corporation issued November 18, 2009 and due November 18, 2019 and which bear interest at a fixed rate of 5.91% per annum;

"**Shareholders**" means the holders of Common Shares from time to time;

"**Storage Agreement**" means the 20 year storage agreement entered into effective May 13, 2003 among the Storage LP, Dow Canada and NOVA Chemicals. See "*Description of Pembina's Business and Operations – Overview – Midstream & Marketing*";

"**Storage Facility**" means the underground ethylene storage facility and related lands and equipment located at Fort Saskatchewan, Alberta in which Pembina indirectly acquired a 50% non-operating interest on June 24, 2003;

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

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

"**Swan Hills Pipeline**" means the approximately 500 kilometre pipeline system and related facilities delivering light sweet crude oil from the Swan Hills area in Alberta, and from Acheson/Ellerslie in Alberta, to Edmonton, Alberta;

"**Syncrude**" or the "**Syncrude Project**" means the joint venture that was formed for the recovery of oil sands, crude bitumen or products derived therefrom from the Athabasca oil sands, located near Fort McMurray, Alberta;

"**Syncrude Pipeline**" means the approximately 430 kilometre pipeline system and related facilities delivering SCO from the Syncrude Project into the Edmonton, Alberta area, formerly referred to as the AOSPL System;

"**throughput**" means volume of product delivered through a pipeline;

"**Trust Units**" means the units of the Fund, which, prior to the Corporate Conversion, represented an equal undivided beneficial interest in the Fund;

"**TSX**" means the Toronto Stock Exchange;

"**Unsecured Senior Notes**" means the $175 million aggregate principal amount of Series A unsecured senior notes due 2014 and bearing interest at 5.99% per annum issued by the Corporation on a private placement basis in June 2004;

"**Wabasca Pipeline**" means the approximately 190 kilometre pipeline system and related facilities delivering crude oil from the East Peace River Arch area of northern Alberta to the Plains Rainbow Pipeline System; and

"**Western Pipeline**" means the approximately 820 kilometre pipeline system and related facilities delivering crude oil from Taylor, British Columbia to Kamloops, British Columbia.

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

All information in this Annual Information Form is presented as of December 31, 2011 unless otherwise indicated.

ABBREVIATIONS AND CONVERSIONS

In this Annual Information Form, the following abbreviations have the indicated meanings:

bbl and bbls	barrel and barrels, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons
bpd	barrels per day
Mbpd	thousands of barrels per day
MMcf/d	million cubic feet per day
BOE	barrels of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one bbl of oil
BOEPD	barrels of oil equivalent per day
km	kilometres

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To convert from	To	Multiply by
bbls	cubic metres	0.l59
cubic meters	bbls	6.293
Miles	kilometres	1.609
Kilometres	miles	0.621

NON–GAAP MEASURES

The Corporation's audited consolidated financial information for the year ended December 31, 2011, which may be found on the Corporation's company profile on the SEDAR website at www.sedar.com, are presented in compliance with International Financial Reporting Standards ("**IFRS**"), which have converged with Canadian generally accepted accounting principles ("**GAAP**") effective for Pembina on January 1, 2010. Certain of the financial information included in such financial statements is contained within this Annual Information Form. Readers should also take note, however, that within this Annual Information Form the terms "operating margin" and "net revenue" are used to describe certain financial information of the Corporation and that these terms are not defined by GAAP.

The non-GAAP term "operating margin" is equal to revenue less operating expenses, as applicable in the context in which it is used. The Corporation believes that the term "operating margin" is a useful measure as the Corporation believes it provides an indication of the results generated by the Corporation's business activities prior to consideration of how the activities were financed or how the results are taxed.

The non-GAAP term "net revenue" is defined by Pembina as revenue net of product purchases.

Readers should be cautioned however that the terms "operating margin" and "net revenue" should not be construed as alternatives to the Corporation's cash flow from operating activities, net earnings, or other measures of financial results determined in accordance with GAAP as an indicator of the Corporation's performance (as such are used in the Corporation's audited consolidated financial information for the year ended December 31, 2011). Furthermore, these measures may not be comparable to similar measures presented by other issuers.

For more information with respect to financial measures which have not been defined by GAAP, see the "*Non–GAAP Measures*" section of the Corporation's management's discussion and analysis for the year ended December 31, 2011, which has been filed on the Corporation's SEDAR profile at www.sedar.com.

ACCOUNTING PRINCIPLES

The Canadian Institute of Chartered Accountants ("**CICA**") Accounting Standards Board ("**AcSB**") confirmed in February 2008 that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board ("**IASB**"), effective January 1, 2010 ("**Transition Date**"). Accordingly, Pembina's audited consolidated financial statements as at and for the year ended December 31, 2011, including required comparative information, have been prepared in accordance with IFRS 1 **–** First-time Adoption of IFRS ("**IFRS 1**"), which sets out the requirements for the first time adoption of IFRS. Pembina has adopted IFRS as its primary accounting principles. Previously, Pembina prepared its annual consolidated financial statements in accordance with Canadian GAAP that existed prior to the incorporation of IFRS into the CICA Handbook. Unless otherwise noted, comparative information has been restated for comparative purposes in accordance with IFRS.

Pembina has, from the Transition Date, reconciled its primary IFRS financial statements to Canadian GAAP. Detailed reconciliations of the changes in equity and comprehensive income resulting from the adoption of IFRS are presented in Note 35 of the audited consolidated financial statements as at and for the year ended December 31, 2011 as filed on the Corporation's profile on the SEDAR website at www.sedar.com. Financial measures reported have been restated to reflect the transition to IFRS for all periods after the Transition Date. The transition to IFRS has not had a material impact on Pembina's operations, strategic decisions, cash flow or capital expenditures.

FORWARD–LOOKING STATEMENTS AND INFORMATION

Certain statements contained in this Annual Information Form constitute "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "**forward-looking statements**"). All forward-looking statements are based on Pembina's current expectations, estimates, projections, beliefs and assumptions based on information available at the time the statement was made and in light of its experience and its perception of historical trends. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan", "intend", design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential", "could", "envisions", "aimed", "would" and similar expressions are intended to identify forward-looking statements. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. 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 Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form contains forward-looking statements pertaining to, among other things, the following:

- the future levels of cash dividends that the Corporation intends to pay to its Shareholders, including Pembina's projections regarding an increase in the level of cash dividends pending successful closing of the Arrangement with Provident;
- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, gas service facilities, terminalling, storage and hub facilities and other facilities or other energy infrastructure, including, but not limited to, in relation to the Pembina Nexus Terminal, the expansion of throughput capacity on the Peace/Northern NGL System, the proposed expansion of a number of existing truck terminals and construction of new full service terminals, the additional activities anticipated to be undertaken to increase access to the Pembina Nexus Terminal, the proposed expansion of the Musreau Gas Plant's shallow cut gas processing capability, the development of

the Resthaven Facility and the Saturn Facility, developments in the Drayton Valley area, including the expansion of Pembina's Drayton Valley mainline system, the various lateral debottlenecking projects Pembina expects to undertake, opportunities to handle increased volumes of NGL on the Brazeau/Caroline Pipeline system, developments in the Montney formation including upgrading the Montney crude oil receipt point capacities, developments in the Swan Hills formation, additional capacity and tie-in opportunities on the new line segment in the Edson, Alberta area, additional growth opportunities in Pembina's conventional service areas and in relation to the Baptiste Truck Terminal;

- pipeline, processing and storage facility and system operations and throughput levels;
- the timing of the installation of the final pump stations for the Mitsue Pipeline and the Nipisi Pipeline and the potential expansion capacity of the Mitsue Pipeline and the Nipisi Pipeline;
- expectations regarding the Storage Facility;
- oil and gas industry exploration and development activity levels;
- commodity price levels;
- the Corporation's strategy and the development of new business initiatives;
- expectations regarding the Corporation's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under governmental regulatory regimes including environmental regulations, greenhouse gas regulations and related abandonment and reclamation obligations;
- future general and administrative expenses of the Corporation;
- increased throughput potential due to increased activity and new connections and other initiatives on Pembina's pipelines;
- future cash flows, potential revenue and cash flow enhancements across the Corporation's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash dividends;
- operating risks (including the amount of future liabilities related to environmental incidents) and related insurance coverage and inspection and integrity systems;
- expectations regarding the oil and gas production opportunities in the areas in which Pembina operates;
- contracts anticipated to be entered into in respect of Pembina's services;
- the intended use of proceeds from the PPC DRIP;
- expectations regarding the renegotiation of a toll settlement on the Western Pipeline and the timing thereof;
- the back-in-service date for the Moosehorn 8 inch gathering pipeline (part of the Swan Hills Pipeline system) and the filing of an insurance claim with respect thereto;
- expectations regarding the long-term initiative to standardize and upgrade the SCADA systems and leak detection platforms used to remotely monitor and control the various pipelines;
- plans with respect to integrity management;
- the possibility of business expansion through the treating of emulsion and disposal of associated water;
- the Arrangement, including the timing and business of the Pembina Meeting and the Provident Meeting; the expected closing date of the Arrangement, the consideration to be paid under the Arrangement, the obligations of Pembina in connection with the Arrangement and expectations regarding the repurchase of Provident Debentures; and
- competitive conditions.

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

- the success of the Corporation's operations;
- prevailing commodity prices and exchange and interest rates;
- the availability of capital to fund future capital requirements relating to the Corporation's existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs of the Corporation's assets;

- in respect of the estimated in-service date and total project costs for the Resthaven Facility and the Saturn Facility, 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 such facilities; that such facilities will be fully supported by long-term firm service agreements accounting for the entire designed throughput at such facilities at the time of such facilities' completion, that there are no unforeseen construction costs related to the facilities; and that there are no unforeseen material costs relating to the facilities which are not recoverable from customers;
- in respect of the expansion of NGL throughput capacity on the Peace/Northern NGL System and the estimated in-service dates with respect to the same, that the Corporation will receive regulatory approval; that the Corporation will reach satisfactory long-term arrangements with customers with respect to the Peace/Northern NGL System; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by the Corporation; that there are no unforeseen construction costs related to the expansion; and that there are no unforeseen material costs relating to the pipelines that are not recoverable from customers;
- in respect of the potential increase in Pembina's dividend following completion of the Arrangement; prevailing commodity prices, margins and exchange rates; that Pembina's and Provident'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;
- in respect of other developments, expansions and capital expenditures planned, including the proposed expansion of a number of existing truck terminals and construction of new full service terminals, the proposed expansion of the Musreau Gas Plant's shallow cut gas processing capability, developments in the Drayton Valley area, including the expansion of Pembina's Drayton Valley mainline system, the various lateral debottlenecking projects Pembina expects to undertake, opportunities to handle increased volumes of NGL on the Brazeau/Caroline Pipeline system, developments in the Montney formation including upgrading the Montney crude oil receipt point capacities, developments in the Swan Hills formation and additional capacity and tie-in opportunities on the new line segment in the Edson, Alberta area, that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs; and that there are no unforeseen material costs relating to the developments, expansions and capital expenditures which are not recoverable from customers;
- the future exploration for and production of oil, NGL and natural gas in the capture area around the Corporation's conventional and midstream and marketing assets, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of the Corporation's assets;
- prevailing regulatory, tax and environmental laws and regulations;
- the timely receipt of required regulatory approvals;
- confirmed customer support and regulatory support for a proposed expansion of the Mitsue Pipeline and the Nipisi Pipeline;
- that the renegotiation of the toll settlement on the Western Pipeline will proceed without unforeseen delays;
- the ability of Pembina to obtain qualified staff and equipment in a timely and cost-efficient manner to meet demand;
- the impact of increasing competition;
- the general stability of the economic and political environment in which Pembina operates;
- the receipt, in a timely manner, of regulatory, Shareholder, Provident shareholder, Court and third party approvals in respect of the Arrangement;
- the satisfaction of conditions to closing of the Arrangement;
- that the Arrangement Agreement will not be terminated prior to closing of the Arrangement; and
- certain assumptions disclosed elsewhere in this Annual Information Form and in the Corporation's management's discussion and analysis for the year ended December 31, 2011 under the headings "*Forward Looking Statements & Information*", "*New Developments & Outlook*", "*Contractual Obligations*", "*Capital*

Expenditures", "*Critical Accounting Estimates*", "*Changes in Accounting Principles and Practices*" and "*Future Tax Changes*".

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the material risk factors set forth below and elsewhere in this Annual Information Form:

- the regulatory environment and decisions;
- the impact of environmental events;
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key alliances and agreements;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non–performance or default by counterparties to agreements which the Corporation or one or more of its affiliates has entered into in respect of its business;
- actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation;
- the need to obtain required approvals from regulatory authorities;
- failure to obtain industry partner and other third party consents and approvals when required;
- fluctuations in operating results;
- unanticipated operating events;
- adverse general economic and market conditions in Canada, North America and elsewhere, including changes in interest rates, foreign currency exchange rates and commodity prices;
- industry conditions associated with Pembina's business;
- stock market volatility and market valuations;
- the intended use of the proceeds of the PPC DRIP by Pembina may change if the board of directors of Pembina determines that it would be in the best interests of Pembina to deploy the proceeds for some other purpose;
- failure to satisfy all conditions or obtain required regulatory, Shareholder, Court and other third party approvals in respect of the Arrangement in a timely manner and on favourable terms or at all;
- the Arrangement Agreement will be terminated prior to the closing of the Arrangement;
- the failure to realize the anticipated benefits of the Arrangement and other acquisitions;
- the failure to integrate the businesses of Pembina and Provident following closing of the Arrangement; and
- the other factors discussed under "*Risk Factors*" herein and in the Corporation's management's discussion and analysis for the year ended December 31, 2011.

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.

PEMBINA PIPELINE CORPORATION

Pembina Pipeline Corporation

The Corporation is the successor to the Fund following the completion of the reorganization of the Fund from an income trust structure to a corporate structure by way of the Corporate Conversion on October 1, 2010. The Corporate Conversion involved, among other things, the exchange, on a one-for-one basis, of all outstanding Trust Units for Common Shares. By converting into a corporation, Pembina has avoided the imposition of a specified-investment flow through tax applicable beginning 2011. See "*Pembina Pipeline Corporation – Corporate Conversion*".

Pembina, directly or indirectly through its subsidiaries, owns interests in a diversified and integrated base of long life energy infrastructure consisting of: (i) conventional oil and NGL pipeline systems and related facilities; (ii) contract–based oil sands pipeline systems and related facilities and other terminalling, storage and hub facilities and services and infrastructure; (iii) a midstream and marketing business, including a 50% interest in an underground ethylene storage facility and other terminalling, storage and hub facilities and services and infrastructure; and (iv) a natural gas gathering and processing business which consists of the assets comprising the Cutbank Complex. The business segments of Pembina are grouped for functional, geographic and accounting purposes into four categories: Conventional Pipelines; Oil Sands & Heavy Oil; Midstream & Marketing; and Gas Services. See "*Description of Pembina's Business and Operations*" for a description of the business and operations of Pembina.

The principal and registered offices of the Corporation are located at 3800, 525 - 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

Corporate Conversion

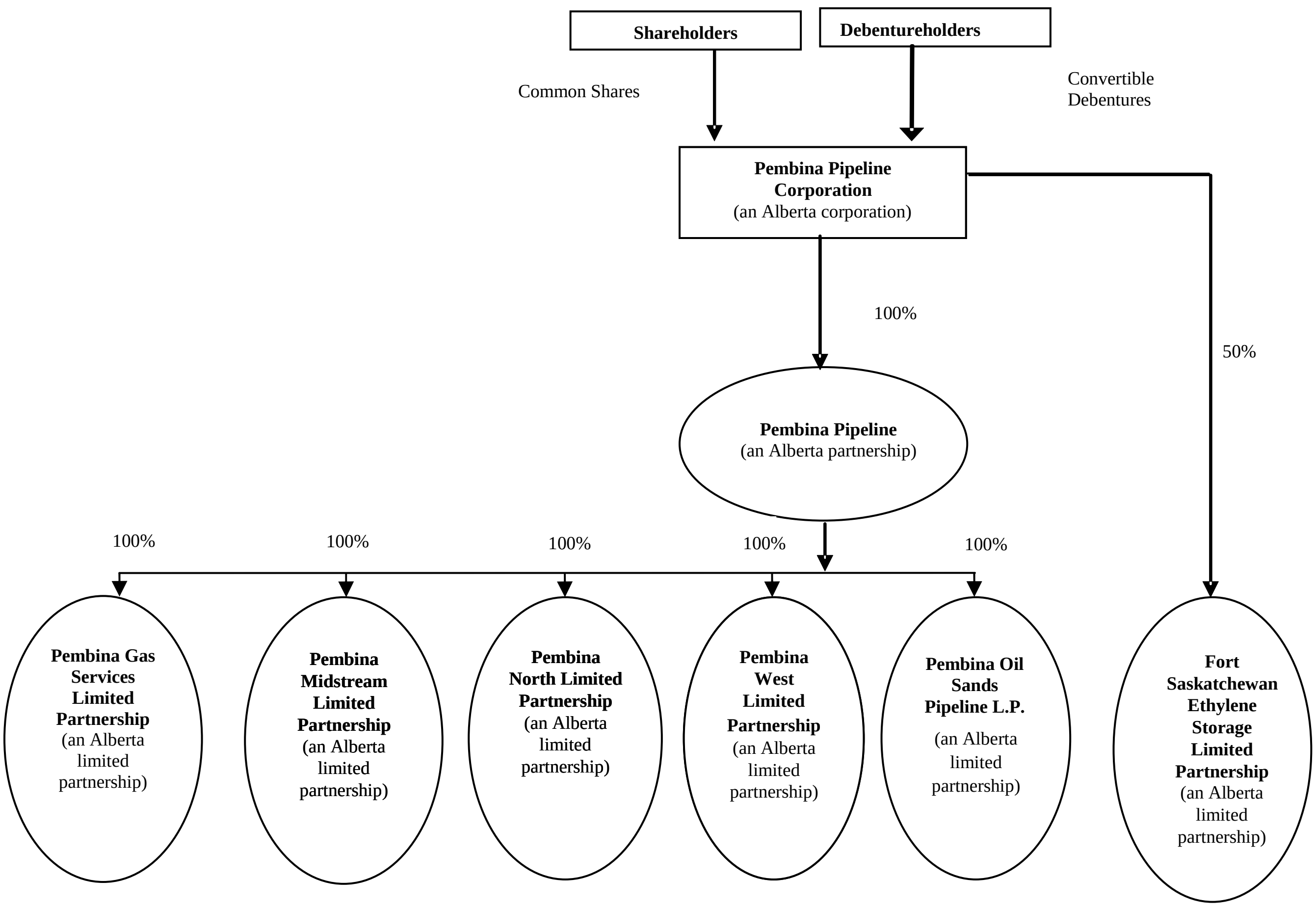
On October 1, 2010, the Fund and the Corporation completed a plan of arrangement, under the provisions of section 193 of the ABCA, involving the Fund, the Corporation and the holders of Trust Units, pursuant to which the business of the Fund was reorganized into the Corporation effective October 1, 2010 (the "**Corporate Conversion**"). Pursuant to the Corporate Conversion holders of Trust Units received one Common Share for each Trust Unit held. In addition, pursuant to the Corporate Conversion, the obligations of the Fund under the Fund's 2010 Convertible Debentures which were outstanding at the time were assumed by the Corporation and holders of the 2010 Convertible Debentures were entitled to receive Common Shares on conversion of the 2010 Convertible Debentures on the same basis that they were entitled to receive Trust Units prior to the closing of the Corporate Conversion. The 2010 Convertible Debentures matured on December 31, 2010.

Pursuant to the Corporate Conversion, the Corporation also assumed the obligations of the Fund in respect of outstanding options to acquire Trust Units (the "**Fund Options**") that were issued under or governed by the option plan of the Fund (the "**Fund Option Plan**"). Upon the exercise of outstanding Fund Options, holders will receive the number of Common Shares equal to the number of Trust Units that they would have otherwise been entitled to receive in accordance with the Fund Option Plan. Corresponding adjustments were also made to the awards outstanding under the Fund's Restricted Unit Long-Term Incentive Plan (the "**RTU Plan**") and Executive Long Term Incentive Plan (the "**Executive LTIP**"). All other terms and conditions of such awards are substantially the same as existed prior to the completion of the Corporate Conversion, as adjusted to take into account the Corporate Conversion. Following the Corporate Conversion, no grants of awards were made under the RTU Plan or the Executive LTIP, as the Corporation implemented a Share Unit Award Incentive Plan, which provides that directors and executives may be granted Share Unit Awards in the form of either restricted share units or performance share units, as determined by the Board of Directors from time to time. On May 26, 2011, the Shareholders approved the 2011 Option Plan, which permits the Board of Directors to issue Options to employees of Pembina as the Board of Directors may determine.

In addition, upon the completion of the Corporate Conversion, the Corporation assumed the Fund's Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "**Fund DRIP**") and all associated agreements and amended and restated them so that, among other things, all existing participants in the DRIP are deemed to be participants in the amended and restated Fund DRIP (such that the Fund DRIP became the Corporation's Premium Dividend™ and Dividend Reinvestment Plan (the "**PPC DRIP**")) without any further action on their part. The holders of Common Shares may now participate in the PPC DRIP with respect to any cash dividends declared and paid by the Corporation on the Common Shares for periods during which the PPC DRIP is not suspended (on March 16, 2010, the Fund announced that it was suspending the Fund DRIP effective April 25, 2010 and, the PPC DRIP was subsequently reinstated effective as of the January 25, 2012 record date and the corresponding dividend, which was paid on February 15, 2012).

Organizational Structure of the Corporation

The following chart indicates the Corporation's major subsidiaries, including their jurisdictions of formation and the percentage of common equity or other ownership interest held or controlled, directly or indirectly, by the Corporation or its subsidiaries.



GENERAL DEVELOPMENTS OF PEMBINA

Developments in 2009 and 2010

In 2009, Pembina completed the acquisition of the Cutbank Complex, which resulted in the formation of Pembina's Gas Services business, and officially announced its plans to complete the Corporation Conversion in 2010. In addition, Pembina received its first full calendar year of revenue from the Horizon Pipeline in 2009 and continued with its plans in respect of the construction of the Nipisi Pipeline and Mitsue Pipeline. In December 2009, Pembina sold the Cremona Pipeline. See "*Description of Pembina's Business and Operations*" and "*General Developments of Pembina – Developments in 2011 and Year to Date 2012*".

In 2010, Pembina completed the Corporate Conversion, pursuant to which the business of the Fund was reorganized into the Corporation effective October 1, 2010. In 2010, Pembina also executed agreements with producers on its systems representing approximately 10,000 bpd of Cardium production and entered into construction support agreements with producers representing an additional 10,000 bpd of production. During 2010, approximately $27.7 million was invested in work to increase capacity at certain sites and improve the operating performance of the Peace Pipeline and Drayton Valley Pipeline systems in Alberta and the Western Pipeline system in British Columbia. On July 13, 2010, Pembina announced it had received approval from the ERCB to construct and operate the Nipisi Pipeline and Mitsue Pipeline. Pursuant to an acquisition that closed on January 7, 2011 with an effective date retroactive to December 31, 2010, the Corporation acquired terminalling and storage facilities in the Edmonton, Alberta area for an aggregate purchase price of approximately $57 million, which assets will form an integral part of the terminal expected to connect key infrastructure in the Edmonton-Fort Saskatchewan-Namao area (the "**Pembina Nexus Terminal**").

On November 12, 2010 the Corporation filed a final base shelf prospectus with the securities commissions or similar regulatory authorities in each of the Provinces of Canada, which Base Shelf Prospectus allows the Corporation to offer and issue, from time to time: (i) Common Shares; (ii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of the Corporation ("**Debt Securities**"); (iii) warrants to purchase Common Shares and warrants to purchase Debt Securities; and (iv) subscription receipts of the Corporation (together with the foregoing, collectively, the "**Securities**") of up to $1,000,000,000 aggregate initial offering price of Securities (or the equivalent thereof in one or more foreign currencies or composite currencies, including United States dollars) during the 25 month period that the Base Shelf Prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more shelf prospectus supplements. See "*Pembina Pipeline Corporation – Corporate Conversion*", "*Description of Pembina's Business and Operations*" and "*General Developments of Pembina – Developments in 2011 and Year to Date 2012*".

Developments in 2011 and Year to Date 2012

<u>Conventional Pipelines</u>

Edson Area

A number of existing NGL-rich plays within the Cretaceous in the Alberta Deep Basin, such as the Cardium, Glauconite and Bluesky formations are being rejuvenated through the combination of strong oil prices and improved drilling and completions technologies. Consequently, Pembina has extended the reach of its conventional pipeline network to provide NGL transportation solutions to producers in the greater Edson, Alberta area. The reactivation and re-certification of an existing 6 inch line from Windfall Junction on the Peace Pipeline system to Edson was completed at a capital cost of $16.4 million and began deliveries on October 15, 2011. This pipeline will provide transportation options for producers exploring for NGL-rich gas opportunities in Alberta Deep Basin Cretaceous plays, including Cardium oil opportunities south of Edson. The re-commissioned pipeline is underpinned by a long-term transportation agreement with an area producer for approximately 5,000 bpd and has an initial capacity of approximately 12,500 bpd. Due to high levels of industry activity in the greater Edson area, Pembina expects additional capacity and tie-in opportunities on the new line segment.

Drayton Valley Area

In order to meet the needs of shippers and accommodate increasing production from the Cardium formation located in west central Alberta, Pembina spent approximately $40 million in 2011 on projects to provide additional transportation service options to area customers. This included an investment of approximately $23 million to increase the capacity of an existing 8 inch 42 km section of pipeline to transport crude oil between Willesden Green and Buck Creek, Alberta, an investment of approximately $7 million to extend an existing 10 inch trunkline to the west of Drayton Valley, Alberta by approximately 12 km, and an investment of approximately $7 million to install a truck terminal north of Rocky Mountain House, Alberta. In addition, Pembina upgraded the capacity of the Buck Creek Booster Station in 2011, increasing the total capacity of the Drayton Valley Pipeline to approximately 135,000 bpd.

During 2012, Pembina intends to continue to expand the capacity of its Drayton Valley Pipeline which will increase system capacity to approximately 190,000 bpd by May of 2012. In addition to this, Pembina will work on various lateral debottlenecking projects, including booster station installation, pipeline loops and other projects that will add capacity to various points along the system.

The focus on the Cardium formation development has also brought forward a number of opportunities for Pembina to handle increased volumes of NGL on its Brazeau/Caroline Pipeline system. Pembina is connecting the NGL production from an existing gas plant in April 2012 and is in various levels of discussions with other gas plant operators looking to develop their NGL-rich natural gas portfolios.

More recently, the Duvernay formation is being explored in the Drayton Valley area. If these plays prove to be economic, Pembina believes that its crude and NGL infrastructure are strategically located to service producers exploring the Duvernay play.

Montney Formation

As the Montney formation play continues to be developed and better defined, it is becoming increasingly apparent that some parts of the play contain material amounts of NGL, both entrained in the gas phase as well as non-associated condensate and light oil production. Given the scale of the Montney resource play, its location and proximity to Pembina's infrastructure and the relative certainty with which it can be exploited, even moderate NGL content could lead to significant volume increases on Pembina's existing pipeline systems. By mid-2012, Pembina expects to have completed upgrading Montney crude oil receipt point capacities from 10,000 bpd to 20,000 bpd.

Swan Hills

Representative of an ongoing theme, many producers continue to reassess legacy oil plays for the opportunity to deploy new technology by exploring the tighter, previously uneconomic parts of the reservoir for opportunities. Recent industry horizontal well results into the Swan Hills formation have validated the commercial viability of this play using horizontal multi-stage fracturing technology. Although in an early stage, the Swan Hills formation is presenting an opportunity for some smaller oil producers to exploit the tighter and peripheral parts of the Beaverhill Lake Group.

Expansion of NGL Pipeline Transportation Capacity

On November 9, 2011, the Corporation announced plans to expand its NGL throughput capacity on its Peace Pipeline and Northern Pipeline (collectively, the "**Peace/Northern NGL System**") by 55,000 bpd (the "**NGL Expansion**") to accommodate increased customer demand resulting from strong drilling results and increased field liquids extraction by area producers. The NGL Expansion will require Pembina to install five new pump stations and upgrade five existing pump stations, which Pembina expects to cost approximately $100 million and is subject to reaching long-term commercial arrangements with its customers and receipt of regulatory approval. Pembina expects 20,000 bpd of the NGL Expansion can be brought into service by the end of 2012 and the remaining 35,000 bpd by the end of 2013.

Once completed, the proposed NGL Expansion will increase capacity on the Peace/Northern NGL System by 48% to 170,000 bpd. Pembina has secured contracts for 55% of the 170,000 bpd capacity and continues to consult with customers in order to increase the volumes under long-term, firm service incentive contracts to underpin the expansion.

Additional Connections and Other Upgrades

During 2011, approximately $35.4 million was invested in work to increase capacity at certain sites and improve the operating performance of the Peace Pipeline and Drayton Valley Pipeline systems in Alberta and the Western Pipeline in British Columbia. Growth opportunities and ongoing industry development in some of Pembina's conventional service areas continue to allow Pembina to maintain stable cash flows in this business unit. Pembina continued to work on a number of new connections in the Dawson Creek, Waskahigan, Greater Kaybob, Musreau/Kakwa, Groundbirch, Swan Hills, Judy Creek and numerous Drayton Valley Cardium areas, many of which came on–stream in 2011, while others are expected to be constructed or on-stream in 2012.

These opportunities are driven by advancements in horizontal drilling and multi–stage fracturing, which continues to drive tie-in requests in the Montney, Swan Hills and Cardium/Drayton Valley areas. Utilization of this drilling technology continues to spread across other tight oil and gas formations providing access to previously inaccessible or uneconomic hydrocarbons across Pembina's Conventional Pipelines. In addition, comparatively lower gas pricing has encouraged field extraction of NGL and Pembina has received numerous requests regarding the connection of proposed NGL producing gas plants.

<u>Oil Sands & Heavy Oil</u>

Nipisi Pipeline and Mitsue Pipeline

On August 3, 2011, Pembina announced that it had completed construction of the Nipisi Pipeline and Mitsue Pipeline. Commissioning was completed for the Mitsue Pipeline on July 1, 2011 and for the Nipisi Pipeline on October 1, 2011. Both pipelines are now fully operational except for the installation of the final pump stations, which is expected to occur within the year. The total capital cost of the Nipisi Pipeline and Mitsue Pipeline was a combined total of approximately $400 million, down from Pembina's original estimate of $440 million.

The Nipisi TSAs and Mitsue TSAs provide for committed ship-or-pay throughput on the Nipisi Pipeline and Mitsue Pipeline by the shippers for an initial 10 year term from the in-service date, with extension rights. In addition, the Nipisi Pipeline can be expanded to an ultimate capacity of approximately 200,000 bpd while the Mitsue Pipeline can be expanded to a capacity of approximately 45,000 bpd. Expansion plans require regulatory approval, which Pembina expects to pursue once customer support has been solidified.

The Seal / Pelican Lake projects are located in the Peace River Arch oil sands region of northwest Alberta and estimates indicate that this area contains significant hydrocarbon resources. While this area has been producing for several decades, recent changes to technology such as horizontal drilling, water flooding and polymer injection has increased production significantly in recent years. Industry estimates range from 5% to 7% recovery under primary recovery rising to 30% to 40% using thermal development. Pembina's Nipisi Pipeline and Mitsue Pipeline were constructed to service this area.

<u>Midstream & Marketing</u>

Terminalling and Storage Facility Acquisition

Pursuant to the acquisition that closed on January 7, 2011 with an effective date retroactive to December 31, 2010, the Corporation acquired terminalling and storage facilities in the Edmonton, Alberta area. The acquisition included more than 300,000 barrels of existing storage capacity and sufficient raw land to develop and significantly expand storage capacity as customer demand grows. The assets are interconnected via pipelines to other Pembina infrastructure, as well as refineries and downstream terminals and will allow Pembina to create tailored products and services for customers and facilitate growth for its other business units. In addition, the assets will form a cornerstone of the Pembina Nexus Terminal, which has been designed to connect key infrastructure in the Edmonton–Fort Saskatchewan–Namao, Alberta area. Pembina envisions that the Pembina Nexus Terminal will act as, among other things, a key distribution hub to serve the growing demand for diluent by customers in the oil sands and heavy oil sector in both the Fort McMurray and Peace River, Alberta regions.

Service Expansions

On September 13, 2011, Pembina announced plans to expand services at a number of existing truck terminals and also construct new full service terminals that focus on emulsion treating (separating oil from impurities to meet shipping quality requirements), produced water handling and water disposal. In addition to earning fees for these additional services, the Corporation's truck terminals will secure volumes for its pipeline systems, which are expected to generate additional pipeline toll revenue.

Pembina's current truck terminal assets include twelve clean oil facilities and an interest in the LaGlace Full Service Terminal and the Rimbey Truck Terminal, all of which are connected to Pembina's conventional pipeline systems. In addition, Pembina is nearing completion of its Baptiste Truck Terminal, which will serve Cardium producers in the Willesden Green area. See "*Description of Pembina's Business and Operations – Overview – Midstream & Marketing*".

<u>Gas Services</u>

Expansion at the Cutbank Complex's Musreau Gas Plant

At the Musreau Gas Plant, Pembina has completed work on an enhanced NGL extraction facility (the "**Musreau Deep Cut Facility**") and has commenced construction on its existing shallow cut gas processing capability.

Pembina completed construction of the Musreau Deep Cut Facility, including a new 205 MMcf/d NGL extraction facility and the related 10 km NGL sales pipeline connected to the Peace Pipeline, in 2011 and commissioning of the facility occurred on February 15, 2012. This new plant will deliver an NGL stream to the Peace Pipeline. Pembina has contracted approximately 80% of the planned capacity at the Musreau Deep Cut Facility and expects to contract the remaining capacity under terms designed to provide Pembina with cash flow certainty.

On July 27, 2011, Pembina announced plans to expand the Musreau Gas Plant's shallow cut gas processing capability by 50 MMcf/d due to high plant utilization and strong customer demand arising from positive drilling results. Once the expansion is complete, the Cutbank Complex is expected to have an aggregate raw gas processing capacity of 410 MMcf/d (355 MMcf/d net to Pembina), an increase of 16% net to Pembina. The Corporation estimates the expansion will cost approximately $26 million and, subject to regulatory and environmental approval, is expected to be in-service by mid-2012. Pembina has entered into contracts with a minimum term of five years with area producers for the entire capacity of the expansion on a fee-for-service basis.

Resthaven Facility

Pembina announced on October 13, 2011 that it plans to further expand its gas handling assets in the Deep Basin in west central Alberta, an area which is becoming known for its prolific NGL-rich gas supply. Pembina has entered into agreements to develop a combined shallow cut and deep cut NGL extraction facility (the "**Resthaven Facility**") by modifying and expanding an existing gas plant. Once operational, the initial phase of the Resthaven Facility will have a gross capacity of 200 MMcf/d and 13,000 bpd of NGL extraction capability, with ultimate processing capacity of 300 MMcf/d and 18,000 bpd of NGL extraction capability. Pembina plans to construct a 44 km, 6 inch diameter NGL pipeline to transport the extracted NGL from the Resthaven Facility to the Peace Pipeline, which delivers product into Edmonton, Alberta. Once completed, Pembina will own approximately 65% of the Resthaven Facility and will own 100% of the NGL pipeline.

Pembina estimates that the Resthaven Facility, associated NGL pipeline, and storage facilities will cost approximately $230 million (net to Pembina).

Subject to regulatory approval, Pembina expects these new facilities to be in-service in late 2013. Pembina's investment in the Resthaven Facility is supported by long-term firm service agreements with two of the major area producers while the associated NGL pipeline is underpinned by long-term service agreements with the Resthaven Facility owners.

Saturn Facility

Pembina announced on October 28, 2011 and has recently commenced construction of an owned and operated 200 MMcf/d enhanced NGL extraction facility (the "**Saturn Facility**") and associated NGL and gas gathering pipelines in the Berland area of west central Alberta.

The Saturn Facility will be connected to Talisman Energy Inc.'s ("**Talisman**") Wild River and Bigstone gas plants through existing and newly constructed gas gathering lines. Once operational, Pembina expects the Saturn Facility will be able to extract up to 13,500 bpd of NGL. Pembina plans to construct an 83 km, 8 inch NGL pipeline to transport the extracted NGL from the Saturn Facility to the Peace Pipeline.

Pembina expects the Saturn Facility, associated NGL and gas gathering pipelines and storage to cost approximately $200 million. Subject to regulatory and environmental approval, Pembina expects the Saturn Facility and associated pipelines to be in-service in the fourth quarter of 2013 and has entered into a long-term, firm service agreement with a major producer.

See "*Description of Pembina's Business and Operations – Overview – Gas Services*".

Other Matters

Reinstatement of Premium Dividend™ and Dividend Reinvestment Plan

The Corporation reinstated the PPC DRIP effective as of the January 25, 2012 record date and the corresponding dividend that was payable on February 15, 2012. Proceeds from the PPC DRIP will be directed towards the Corporation's 2012 capital program and the reduction of outstanding bank debt.

Announcement of Acquisition of Provident Energy Ltd.

On January 16, 2012 the Corporation and Provident announced they had entered into an agreement (the "**Arrangement Agreement**") pursuant to which the Corporation will acquire all of the issued and outstanding Provident Shares by way of a plan of arrangement under the ABCA (the "**Arrangement**"). Under the terms of the Arrangement Agreement, Provident shareholders will receive 0.425 of a Common Share for each Provident Share held. Pembina will also assume all of the rights and obligations of Provident relating to: (i) the 5.75% convertible unsecured subordinated debentures of Provident maturing December 31, 2017, and (ii) the 5.75% convertible unsecured subordinated debentures of Provident maturing December 31, 2018 (collectively, the "**Provident Debentures**"). Following closing of the Arrangement, the Corporation intends to make an offer for the Provident Debentures at 100% of their principal values plus accrued and unpaid interest. The repurchase offer will be made within 30 days of closing of the Arrangement. Should a holder of the Provident Debentures elect not to accept the repurchase offer, the debentures will mature as originally set out in their respective indentures. The proposed transaction requires the approval of at least 66 2/3% of holders of Provident Shares represented in person or by proxy at a special meeting of Provident shareholders (the "**Provident Meeting**") and the approval of a majority of the votes cast by Shareholders of the Corporation at a special meeting of Shareholders (the "**Pembina Meeting**") called to consider the issuance of Common Shares in connection with the Arrangement. The Pembina Meeting and the Provident Meeting are currently scheduled to be held on March 27, 2012, with closing expected to occur as soon as possible thereafter, subject to regulatory approval. On March 14, 2012, the Commissioner of Competition issued a "no action letter" in respect of the transactions contemplated by the Arrangement Agreement, thereby satisfying a condition to closing of the Arrangement.

For a further description of the Arrangement, please refer to the Joint Management Information Circular and Proxy Statement of the Corporation and Provident with respect to the Arrangement, a copy of which was filed on February 22, 2012 on the Corporation's SEDAR profile at www.sedar.com.

Medium Term Note Offering

On March 29, 2011, the Corporation issued and sold $250 million aggregate principal amount of medium term notes pursuant to a pricing supplement under its Base Shelf Prospectus as supplemented by a prospectus supplement thereto dated March 16, 2011 (the "**Medium Term Notes**"). The Medium Term Notes have an annual coupon rate of interest of 4.89% and mature on March 29, 2021. The Corporation used the net proceeds from the sale of the Medium Term Notes to partially repay existing credit facilities and to fund organic growth opportunities. See "*Description of the Capital Structure of the Corporation – Medium Term Notes*".

Management Internalization

Prior to June 30, 2006, all of the management functions for the Fund, the Corporation and the Fund's other direct and indirect subsidiaries were generally performed by the Manager pursuant to the Administration Agreement and the Management Agreement, and the Manager's shares were held by executive officers of the Corporation. The Corporation also directly employed executive officers and other employees to manage and administer the business affairs of the Fund, the Corporation and those other subsidiaries. However, on June 30, 2006, the external management arrangements were effectively eliminated as the Fund, through the Corporation, acquired all of the shares of the Manager and the Manager delegated all of its duties under the Administration Agreement and the Management Agreement to the Corporation (the "**Management Internalization**"). As a result of the Management Internalization, all of the executive officers who previously managed and administered the business and affairs of the Fund through the Manager entered into employment contracts with the Corporation effective July 1, 2006 and are now compensated only by the Corporation, and all fees payable by the Corporation to the Manager pursuant to the Administration Agreement and the Management Agreement were eliminated effective June 30, 2006. The Management Agreement and the Administration Agreement were terminated effective October 1, 2010 in connection with the Corporate Conversion.

Pembina Management Inc. was wound down effective December 31, 2011.

For a further description of such arrangements, please refer to the Internalization Agreement, a copy of which was filed as a "material document" on June 30, 2006 on the Fund's SEDAR profile at www.sedar.com.

DESCRIPTION OF PEMBINA'S BUSINESS AND OPERATIONS

Pembina's Business Objective and Strategy

Pembina's principal objective is to provide competitive and reliable returns to investors through monthly dividends while also enhancing the long-term value of its Common Shares. To achieve this objective, Pembina's strategy is to:

- Generate value by providing customers with safe, cost-effective, reliable services.

- Diversify Pembina's asset base to enhance profitability. A diverse portfolio provides Pembina with the ability to respond to market conditions, reduce risk and increase opportunities to leverage existing businesses. A priority is placed on developing businesses that support Pembina's core competency – operating crude oil and NGL transportation systems and gas gathering and processing infrastructure – which allow for expansion, vertical integration and accretive growth.

- Implement growth and conduct operations in a safe and environmentally responsible manner. Growth is expected to occur through expansion of existing businesses, acquisition and the development of new services. Pembina's investment criteria include pursuing projects or assets that are expected to generate the increased cash flow per Common Share and capture long-life, economic hydrocarbon reserves.

- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

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

Conventional Pipelines

Pembina's Conventional Pipelines business comprises a well-maintained and strategically located 7,500 kilometre pipeline network that extends across much of Alberta and British Columbia, transporting approximately 50% of Alberta's conventional crude oil production and approximately 20% of the NGL produced in Western Canada. The primary objective of the Conventional Pipelines business is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue enhancements. Operating margins are maintained through incremental volume capture, system expansion, revenue management and operating expense discipline. During 2011 throughput averaged approximately 414,000 bpd, consisting of an average of 329,000 bpd of crude oil and 85,000 bpd of NGL.

Oil Sands & Heavy Oil

With five oil sands pipelines, Pembina plays an important role in supporting Alberta's oil sands and heavy oil industry. Pembina is the sole transporter of crude oil for Syncrude (via the Syncrude Pipeline) and CNRL's Horizon Project (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Cheecham Lateral, which transports SCO for oil sands producers operating southeast of Fort McMurray, Alberta. Pembina has expanded this business by bringing its Nipisi Pipeline and Mitsue Pipeline on-stream in 2011, which now provide transportation for producers operating in the Pelican Lake and Peace River heavy oil regions of Alberta. In total, this business has approximately 1,450 kilometres of pipeline with 895,000 bpd of transportation capacity. These assets operated under long-term, extendible contracts that provide for the flow through of operating expenses to customers. As a result, net operating income from this business is primarily related to invested capital and is not generally sensitive to fluctuations in operating expenses or actual throughputs.

Midstream & Marketing

This business consists of a network of terminals, pipeline-connected storage and hub services located across Pembina's Conventional Pipelines, including the Pembina Nexus Terminal, as well as a 50% non-operated interest in the Storage Facility located near Edmonton, Alberta and the LaGlace Full Service Terminal. By vertically integrating services along the hydrocarbon value chain, this business has increased the range of services provided to customers and has contributed to throughput within the Conventional Pipelines and Oil Sands & Heavy Oil businesses. Terminal, storage and hub services are a critical link in the value chain facilitating commerce between sellers, buyers and market makers. There is a growing demand for access to these services as the Western Canadian energy market evolves. The Pembina Nexus Terminal is expected to increase Pembina's ability to provide new, customer–focused services, expand its terminalling capabilities through greater connectivity of its infrastructure and allow Pembina to bring incremental operational and merchant storage to the market. In this capacity it will be integrated with Pembina's Mitsue Pipeline, which will enable Pembina to expand diluent delivery to the Nipisi, Alberta heavy oil area. Pembina is already developing plans to increase the interconnectivity of the Pembina Nexus Terminal, aimed at providing value to both upstream and downstream customers. For these reasons, further expansion and diversification of Pembina's interests in this area is also a priority.

Gas Services

Pembina's Gas Services business is comprised of the Cutbank Complex, a natural gas gathering and processing facility. The Cutbank Complex consists of over 300 kilometres of gathering lines and ownership in three sweet gas processing plants with 360 MMcf/d of processing capacity (305 MMcf/d net to Pembina). These assets are connected to the Peace Pipeline system and serve an active exploration and production area in the Western Canadian Sedimentary Basin. During 2011 average processing volume net to Pembina was 244.5 MMcf/d.

Overview

Pembina's business is structured into four key units: (i) Conventional Pipelines; (ii) Oil Sands & Heavy Oil; (iii) Midstream & Marketing; and (iv) Gas Services. The following map illustrates Pembina's assets and certain planned expansions.

The revenue contribution from each of Pembina's four business units in 2011 was divided as follows: (i) Conventional Pipelines contributed 49.0% of total net revenue; (ii) Oil Sands & Heavy Oil contributed 22.3% of total net revenue; (iii) the Midstream & Marketing business contributed 16.9% of total net revenue; and (iv) the Gas Services business contributed 11.8% of total net revenue. The following table sets forth certain operating highlights for the business segments in 2011, 2010 and 2009.

2011 / 2010 / 2009 Operating Highlights

($ millions unless otherwise stated)	Conventional Pipelines			Oil Sands & Heavy Oil [2]			Midstream & Marketing [3]			Gas Services [4]			Total [6]		
	2011	2010	2009[8]	2011	2010	2009[8]	2011	2010	2009[8]	2011	2010	2009[8]	2011	2010	2009[8]
Average throughput (Mbpd)	413.9	374.0	393.3	870.0	775.0	775.0	n/a	n/a	n/a	244.5[5]	220.5[5]	197.4[5]	1283.9	1,149.0	1,168.3
Net Revenue [1]	296.2	261.6	255.0	134.9	118.4	115.6	102.0	55.5	93.8	71.5	61.5	33.0	604.6	497.0	497.4
Operating expenses	119.1	92.5	104.6	44.1	40.2	34.0	8.7	4.7	10.6	22.4	18.4	10.0	194.3	155.8	159.2
Operating margin[1]	177.1	169.1	150.4	90.8	78.2	81.6	93.3	50.8	83.2	49.1	43.1	23.0	410.3[7]	341.2	338.2

Notes:

(1) See "*Non–GAAP Measures*" on page 7.
(2) Revenue is contract based and independent of utilization rates, therefore volumes reported are contracted capacity.
(3) Midstream & Marketing revenue is net of $1,072.1 million in product purchase expense for 2011 (2010: $735.2 million).
(4) Pembina acquired the assets comprising its Gas Services business, being the assets comprising the Cutbank Complex, in 2009. During the third and fourth quarters of 2009, Pembina reported the financial and operating results for its Gas Services business under its Midstream & Marketing business; in 2010, Pembina began reporting the operating and financial results for this business under a separate business unit and the numbers above have been restated to show Gas Services operating highlights in 2009 as a separate business unit for ease of comparison.
(5) Average throughput for Gas Services is in MMcf/d. Average BOEPD processed in 2011 were 40.8 compared to 36.8 in 2010.
(6) Total average throughput volume does not include throughput from Gas Services and represents the sum of throughput from Conventional Pipelines and Oil Sands & Heavy Oil.
(7) Not including corporate recoveries of $2.4 million for 2011.
(8) As Pembina's IFRS transition date was January 1, 2010, 2009 comparative information has not been restated and is presented in accordance with previous Canadian GAAP. See "*Accounting Principles*".

Outlined below is a description of the operations of the Conventional Pipelines, the Oil Sands & Heavy Oil, the Midstream & Marketing, and the Gas Services businesses. Additional information regarding Pembina's 2011 operational results and new developments and outlook is contained in the Corporation's management's discussion and analysis for the year ended December 31, 2011, an electronic copy of which is available through the internet on the Corporation's profile on the SEDAR website at www.sedar.com, or at www.pembina.com.

Conventional Pipelines

Pembina's Conventional Pipelines business comprises a well-maintained and strategically located 7,500 km pipeline network that extends across much of Alberta and British Columbia, and transports approximately half of Alberta's conventional crude oil production and approximately twenty percent of the NGL produced in Western Canada. The Conventional Pipelines business' primary objective is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue. Pembina endeavors to maintain and/or improve operating margins through capturing incremental volumes, expanding its pipeline systems, managing revenues and adopting strong discipline measures over operating expenses.

Throughput during 2011 averaged 414,000 bpd, compared to 375,000 bpd during 2010. Throughput during the full year of 2011 was substantially higher than the prior year due to increased industry activity in the vicinity of all of Pembina's major pipeline systems.

Extreme weather in northeastern British Columbia caused a significant amount of flooding in late June 2011. Pembina proactively shut down its Western Pipeline, which runs from Taylor to Kamloops, British Columbia, for a period of 15 days to minimize the potential risk of a pipeline incident. During the shutdown, the Corporation monitored the pipeline by air, land and through its Edmonton control centre, conducted integrity inspections, and completed remedial work on the right-of-way before determining it was safe to restart operations. Pembina restarted the Western Pipeline on July 11, 2011 and did not experience any material impact from this event.

On July 19, 2011 Pembina discovered a spill of between 800 and 1,000 bbls of light sweet crude on its Moosehorn 8 inch gathering pipeline (part of the Swan Hills Pipeline system). The release occurred along Pembina's right-of-way and into muskeg and an unnamed creek, but did not enter any named waterways or sources of drinking water. Pembina plans to replace a 10 km segment of 8 inch pipeline along the right-of-way and expects the pipeline to be back in-service in the second quarter of 2012. An initial claim related to this spill has been filed under Pembina's pollution liability policies. Once work is completed and a final cost is known, a final insurance claim will be made.

Conventional Pipelines business generated revenue of $296.2 million compared to $261.6 million in 2010. The increase was driven by higher volumes on the majority of Pembina's largest systems. Operating expenses for 2011 were $119.1 million compared to $92.5 million in 2010. This increase was primarily due to higher labour costs and integrity work conducted on segments of Pembina's Conventional Pipelines to help ensure ongoing pipeline integrity, safety and reliability, and in anticipation of growing throughput.

Operating margin for 2011 was $177.1 million for the year ended December 31, 2011 compared to $169.1 million, during the same periods of 2010. Increased revenues offset by higher operating expenses impacted operating margin during the year. The increase in operating expense was primarily due to higher labour costs and integrity work conducted on segments of Pembina's conventional pipelines to help ensure ongoing pipeline integrity, safety and reliability, and in anticipation of growing throughput. Higher power costs associated with increased throughput also contributed to increased operating expenses in 2011. Realized gains or losses on power derivatives recorded in this business unit, which provide a hedge for the majority of the power supply and provide greater operating cost certainty, are recognized under finance income. Pembina is committed to being a reliable and responsible operator, and to protecting the health and safety of the communities in which the Corporation operates. The Corporation allocates approximately one third of its annual operating budget to its extensive pipeline and facility integrity management programs.

Conventional Pipelines Expansion Plans

NGL Rich Natural Gas: Expansion of Peace and Northern Pipelines

On November 9, 2011, Pembina announced plans to expand its NGL throughput capacity on its Peace/Northern NGL System by 55,000 bpd to accommodate increased customer demand resulting from strong drilling results and increased field NGL extraction by area producers.

The NGL Expansion will require Pembina to install five new pump stations and upgrade five existing pump stations. Pembina expects the NGL Expansion will cost approximately $100 million and is subject to reaching long-term commercial arrangements with its customers and regulatory and environmental approvals. Pembina expects 20,000 bpd of the NGL Expansion can be brought into service by the end of 2012 and the remaining 35,000 bpd by the end of 2013.

Pembina's Peace/Northern NGL System is strategically located across NGL-rich natural gas production areas in the Western Canadian Sedimentary Basin and serves producers in the Deep Basin, Montney, Cardium and emerging Duvernay Shale plays. Currently, the Peace/Northern NGL System's capacity is 115,000 bpd. As at December 31, 2011, average daily throughput on the Peace/Northern NGL System was approximately 99,000 bpd. Once completed, the proposed NGL Expansion will increase capacity on the Northern NGL System by 48% to 170,000 bpd.

Pembina has existing long-term contracts in place for a portion of the capacity on its Northern NGL System and has entered into several new long-term firm service incentive arrangements for additional capacity on the system. Combined, the existing and new contracts have secured 55% of the 170,000 bpd capacity. Pembina continues to consult with its customers to increase the volumes under long-term, firm service incentive contracts to underpin the NGL Expansion.

Pembina believes its plans for the NGL Expansion can be completed very cost-effectively by upgrading and modifying pump stations at existing locations where possible and will reduce environmental and community impact by using existing right-of-ways.

Drayton Valley Area

In the area of the Cardium formation of west central Alberta, Pembina increased the capacity of an existing 8 inch 42 km section of pipeline that transports crude oil between Willesden Green and Buck Creek, Alberta. This expansion, which was put into service in December of 2011, has increased the capacity of the line from 12,000 bpd to approximately 37,000 bpd. The incremental capacity of the Willesden Green loop will also accommodate incremental volumes from Pembina's new Baptiste Truck Terminal and provide improved service options to producers in the O'Chiese to Rocky Mountain House area of Alberta. By the second quarter of 2012, Pembina expects to complete the refurbishing of its Calmar booster station to add 50,000 bpd of capacity to the Drayton Valley mainline, bringing the total capacity of the system to 190,000 bpd. The Drayton Valley system is currently moving 125,000 bpd.

Edson Area

During the first quarter of 2011, Pembina announced that it would extend the reach of its conventional pipeline network to provide NGL transportation solutions to producers in the greater Edson, Alberta area.

Pembina has completed the re-activation and re-certification of an existing 6 inch line from Windfall Junction on its Peace Pipeline system to Edson, Alberta at a capital cost of $16.4 million, and began deliveries on October 15, 2011. This pipeline provides transportation options for producers exploring for NGL-rich gas in Deep Basin Cretaceous plays, including Cardium oil opportunities south of Edson. The re-commissioned pipeline is underpinned by a long-term transportation agreement with an area producer for approximately 5,000 bpd and has an initial capacity of approximately 12,500 bpd. Due to high levels of industry activity in the greater Edson area, Pembina expects additional capacity and tie-in opportunities on this new line segment.

Oil Sands & Heavy Oil

Pembina owns and operates five pipelines servicing the oil sands area in northeastern Alberta. All of the Oil Sands & Heavy Oil pipelines are characterized by fully–contracted service and provide long–term returns which Pembina designed to produce a secure stream of stable cash flow. The agreements underlying Pembina's Oil Sands & Heavy Oil assets are effectively tied to the life of the oil sands and heavy oil reserves to which they provide service.

Syncrude Pipeline

The Syncrude Pipeline is comprised of a mainline and related facilities and its single receipt point is the Syncrude Project. The Syncrude Pipeline is the sole transporter for the Syncrude Project and has transportation capacity of 389,000 bpd.

Revenue on the Syncrude Pipeline is not dependent on throughput. Operating margin from this system was $24.0 million in 2011, virtually unchanged from $26.0 million in 2010.

Returns generated by the Syncrude Pipeline are governed by a long-term agreement with the Syncrude owners. The current term of the agreement runs until December 2035, commensurate with the current expiry of the Syncrude Project's licenses, and is subject to extension. Pembina's rate of return on the Syncrude Pipeline is independent of throughput volume, as Pembina earns a rate of return on its depreciated capital investment and fully recovers operating costs.

Cheecham Lateral

The Cheecham Lateral is a 56 kilometre 16 inch pipeline that has a transportation service capacity of 136,000 bpd and delivers synthetic crude oil from the Syncrude and Horizon Pipelines to other oil sands production facilities for use as diluent. The Cheecham Lateral is fully contracted to shippers and revenue is not dependent on throughput. The Cheecham Lateral contributed $4.5 million in operating margin during 2011, consistent with the results for 2010.

Horizon Pipeline

The Horizon Pipeline is comprised of a mainline and related facilities and its single receipt point is the Horizon Project. The Horizon Pipeline is fully contracted to CNRL and has current capacity of 125,000 bpd and ultimate transportation capacity of 250,000 bpd, with the addition of pump stations.

Operating margin from this pipeline was $47.3 million in 2011, compared to $46.5 million in 2010.

Returns generated by the Horizon Pipeline are governed by a long-term agreement with CNRL, the owner of the Horizon Project. The current term of the agreement runs until November 1, 2033, and is subject to extension. Pembina has the exclusive right to construct any expansions or extensions to the Horizon Pipeline. Pembina's rate of return on the Horizon Pipeline is independent of throughput volume, as Pembina earns a fixed rate of return on invested capital and fully recovers operating costs.

Nipisi Pipeline and Mitsue Pipeline

On August 3, 2011, Pembina announced that it had completed construction of the Nipisi Pipeline and Mitsue Pipeline. Commissioning was completed for the Mitsue Pipeline on July 1, 2011 and for the Nipisi Pipeline on October 1, 2011. Both pipelines are now fully operational, except for the installation of the final pump stations, which is expected to occur within the year.

The Nipisi TSAs and Mitsue TSAs provide for committed ship-or-pay throughput on the Nipisi Pipeline and Mitsue Pipeline by the shippers for an initial 10 year term from the in-service date, with extension rights. The Nipisi Pipeline and Mitsue Pipeline currently have a combined capacity of approximately 120,000 bpd.

Operating margin from these pipelines was $13.7 million in 2011.

<u>Midstream & Marketing</u>

Pembina's Midstream & Marketing business is designed to capture the inherent value embedded in its existing infrastructure assets and invest in opportunities that create increased optionality for Pembina and its customers. It represents a vertical integration of Pembina's businesses through marketing, storage, terminalling and hub services. Midstream services are now offered on the Drayton Valley Pipeline, Swan Hills Pipeline, Peace Pipeline systems, the Mitsue Pipeline and the development at Pembina Nexus Terminal. In 2011, the Midstream & Marketing business unit, net of Storage Facility results which are equity accounted and included in share of profit from equity accounted investees, contributed $102.0 million in net revenue, up from $55.5 million in 2010. Total operating margin, net of share of profit from equity accounted investees, generated by the Midstream & Marketing business in 2011 was $93.3 million, up from $50.8 million in 2010.

Ethylene Storage

Pembina owns an indirect interest in the Storage Facility through ownership of a 49.9% interest in the Storage LP and 50% of the shares in the Storage GP, which holds a 0.2% interest in the Storage LP. Dow Canada, directly and indirectly owns the other 50% interest in the Storage LP, including the remaining 50% of the shares of the Storage GP, and operates the Storage Facility. The Storage LP owns 100% of the underground ethylene storage facility and related lands and equipment that comprise the Storage Facility.

Dow Canada and NOVA Chemicals are the Storage Facility's principal customers (collectively, the "**Customers**"). The Customers are party to the Storage Agreement which, after its expiry, is automatically renewed as to each Customer for successive periods of one year unless either the Corporation or the Customers gives the other five year's notice of non–renewal. If the Storage Agreement terminates prior to the twenty year anniversary date, the

Customers are required to pay the Storage LP a make–whole payment equal to the unrecovered balance of capital expenditures made by the Storage LP prior to the termination plus the present value of the balance of the monthly based fixed fees for the remainder of the term of the Storage Agreement, discounted at a prescribed equity rate of return.

Dow Canada operates the Storage Facility pursuant to an operating agreement. Under a separate ethylene delivery system services agreement which also has the same term and effective date as the Storage Agreement, NOVA Chemicals has agreed to inject and withdraw ethylene by means of its pipeline facilities into and out of the Storage Facility for the Storage LP's customers.

Three of the five ethylene storage caverns in the Storage Facility are currently out of service and it is unlikely those caverns will be put back into ethylene storage service. The joint owners of this facility are examining alternative capacity options for ethylene storage available elsewhere on the jointly owned property. At this stage, the Corporation does not expect to see a material reduction in revenue as a result, and it is anticipated that an additional cavern will be washed. See "*Risk Factors – Risks Inherent in Pembina's Business – Structural Integrity of the Storage Facility*".

Along with stable, long term cash flow, the Storage Facility provides diversification of Pembina's business into the petrochemical sector without the corresponding commodity price exposure.

Share of profit from the equity accounted investee contributed $5.8 million to earnings in 2011 as compared to $9.1 million in 2010, and these assets generated cash flow of $17.5 million in 2011, similar to 2010.

Midstream & Marketing Development and Expansion Plans

In early 2011, Pembina acquired terminalling and storage facilities located near Edmonton, Alberta. The $57 million acquisition included more than 300,000 bbls of existing storage capacity and sufficient bare land to develop and significantly expand storage capacity as customer demand grows. The assets are interconnected via pipelines to other Pembina infrastructure, as well as refineries and downstream terminals, and will enable Pembina to create tailored products and services for customers while facilitating growth opportunities for its other business units. In addition, the assets will form a cornerstone of the Pembina Nexus Terminal which has been designed to connect key infrastructure in the Edmonton–Fort Saskatchewan–Namao, Alberta area. Pembina envisions that Pembina Nexus Terminal will act as, among other things, a key distribution hub to serve the growing demand for diluent by customers in the oil sands and heavy oil sector in both the Fort McMurray and Peace River, Alberta regions. At the end of the fourth quarter of 2011, Pembina completed initial work to increase the interconnectivity of the terminal to add value for both upstream and downstream customers. In the future, Pembina anticipates undertaking additional activities to further increase access to the terminal which would be completed over time, based on market demand.

On September 13, 2011 Pembina announced plans to expand services at a number of its existing truck terminals and construct new full-service terminals that focus on emulsion treating (separating oil from impurities to meet shipping quality requirements), produced water handling and water disposal. In addition to earning fees for these services, Pembina's truck terminals will secure volumes for its pipeline systems which will generate additional pipeline toll revenue.

Pembina's current truck terminal assets include twelve clean oil facilities and an interest in both the LaGlace Full Service Terminal and the Rimbey Truck Terminal – all of which are connected to Pembina's conventional pipeline systems. In addition, Pembina has completed construction of its Baptiste Truck Terminal, which serves Cardium producers in the Willesden Green area, as discussed above.

Pembina entered the full service truck terminal business in 2008 through a joint venture with an industry partner to construct the LaGlace Full Service Terminal. Increasing Pembina's truck terminal network is part of an overall strategy focused on securing volumes for Pembina's conventional pipeline network, and extending its suite of value-added services to existing and potential customers. This initiative is another example of the Corporation's vertical integration strategy.

Pembina has numerous opportunities across its conventional pipeline network to service constrained and developing areas and its initial capital expenditures, which are subject to regulatory and environmental approvals, will be directed towards truck terminals that service Cardium, Montney, Deep Basin and Peace River oil producers as well as Pembina Nexus Terminal.

Also in 2011, Pembina maintained its proactive assessment of its power load and forward strategy of managing power costs. The hedging program is tailored to the requirements of each business unit and will take advantage of the combined load and operational flexibility of the facilities, as well as any aggregate load leveling potential. Under the strategy, Pembina has hedged 20 MW in 2011 and 2012 with a step-down profile through 2015.

For additional information on Pembina's Midstream & Marketing business, see "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Midstream & Marketing*".

<u>Gas Services</u>

Pembina's Gas Services business is comprised of the Cutbank Complex, a natural gas gathering and processing facility.

Cutbank Complex

The Cutbank Complex was acquired by Pembina on June 2, 2009.

Located 80 kilometres south of Grande Prairie in west central Alberta, the Cutbank Complex is an interconnected sweet gas gathering and processing complex consisting of 3 gas plants (the Cutbank Gas Plant, the Musreau Gas Plant and the Kakwa Gas Plant), 9 compressor stations and over 300 kilometres of gathering pipeline systems. The Cutbank Complex can capture gas from over a 2,300 square kilometre area, including such fields as Bilbo, Caw, Chicken, Chime, Cutpick, Kakwa, Lynx, Musreau, Red Rock and Karr. The Cutbank Gas Plant, Musreau Gas Plant and Kakwa Gas Plant process sweet gas and have an aggregate raw gas processing capacity of 360 MMcf/d (305 MMcf/d net to Pembina). For the year ended December 31, 2011, average processing volume (net to Pembina) was 245 MMcf/d, representing a 80% utilization rate as compared to 221 MMcf/d and 72% for the year ended December 31, 2010. The Cutbank Gas Plant and the Musreau Gas Plant are operated by Pembina and the Kakwa Gas Plant, in which Pembina owns a 50% interest, is operated by Encana Corporation. Collectively, the Cutbank Complex constitutes a network that is positioned in each individual operating area to serve drilling and production activities.

Revenue from the Cutbank Complex is primarily generated through the charging of capital fees and a recovery of operating costs for the processing, transportation and compression of sweet gas. Producers are generally charged a compression, gathering and processing fee that varies based upon a number of factors, including where the gas enters the associated gathering pipeline, the volume of gas, the composition of gas and the term of an agreement. Certain contracts may also contain payment terms for natural gas liquids extracted. Operating expenses, including certain general and administrative and environmental costs, are largely treated as a flow through to producers. Producers are invoiced on a monthly basis and quarterly adjustments are made, followed by a 13-month adjustment at the end of the year. The gathering and processing contracts also contain a provision whereby Pembina can recover its related overhead based on its operating costs. See " *– Contractual Arrangements – Cutbank Complex*".

During 2011, the Cutbank Complex contributed $49.1 million to operating margin, and in 2010, the facility contributed $43.1 million to operating margin.

Information and Communication Systems

Pembina employs SCADA technology on all of its pipeline systems. The SCADA systems allow for continuous electronic monitoring and control of the pipeline systems from dedicated computer consoles located in Pembina's Edmonton control centre. Operators monitor the computer consoles 24 hours per day, 365 days per year. The SCADA systems and associated leak detection software continually monitor pipeline flow and operating conditions.

Line balance calculations are performed automatically by the system and alarms are triggered when imbalances are detected or measured pressures do not match those projected by software models.

During 2012, Pembina will continue working on its long–term initiative to standardize and upgrade the SCADA systems and leak detection platforms used to remotely monitor and control the various pipelines. Pembina is in the process of migrating the control of some of Pembina's existing pipeline systems from an older SCADA platform to a new SCADA system that currently monitors and controls the Nipisi Pipeline and Mitsue Pipeline systems.

Integrity Management

Pembina employs a comprehensive pipeline integrity management program ("**IMP**") and dedicates a significant portion of its annual operating budget directly to pipeline integrity management activities. Pembina's IMP includes the systems, processes, analysis and documentation designed to ensure proactive and transparent management of its pipeline systems and compliance with applicable standards and regulations.

Pembina's IMP is designed to achieve enhanced safety, reliability and longevity through the entire pipeline lifecycle. Integrity management begins at the engineering and design phase with quality specifications/standards during pipe manufacturing, selection and application of high quality coatings to protect buried pipe, route selection to avoid geologically unstable or high consequence areas, and the use of cathodic protection systems to electrically protect the pipe from external corrosion.

Proactive integrity management activities extend into pipeline operations with programs including right–of–way patrols and public awareness to reduce the likelihood of third party damage, system–specific hazard evaluations and risk assessments, geotechnical programs to manage slope instability and river crossings, training and qualification programs for staff and contractors, enhanced emergency response procedures, and the use of specific chemicals to reduce the likelihood of internal corrosion from impurities and bacteria in the oil.

In 2011, Pembina completed a baseline geotechnical inspection program of pipelines to inventory all water crossings and slopes and to assess integrity threats posed by these crossings and slopes. From this inventory, Pembina assessed and completed 11 crossing mitigation projects. In 2012, Pembina plans to complete 24 water crossing mitigation projects as well as 5 slope mitigation projects.

The cornerstone of Pembina's pipeline integrity program is the use of in–line inspection ("**ILI**") technology to measure and record both the distribution and severity of defects in the pipe. Through proactive use of these sophisticated electronic tools, defects with the potential to compromise pipeline fitness–for–service are identified and repaired. Projected defect growth rates and/or historical operating knowledge are used to plan re–inspection intervals. Pembina's re–inspection frequency is typically three to seven years with intervals selected so that remaining defects are re–assessed and repaired before they have a material effect on pipe integrity.

Pembina has employed in–line inspection since the early 1970s, progressing to newer high resolution ILI technology in the late 1990s. As part of Pembina's ongoing integrity management program, 66 pipeline segments were inspected in 2011. Several of the segments inspected in 2011 were inspected for the first time with a geometry tool which provides information on any features related to original construction damage, geotechnical movement and third-party hits. Approximately 70% of the excavation and repair programs associated with these inspections were completed in 2011, with some fourth quarter inspections, non-critical maintenance activities and larger projects carrying over into 2012. Approximately 65 line segments are scheduled for inspection in 2012.

For those line segments with higher susceptibility to crack failures, Pembina also employs specialized ultrasonic ILI crack detection technology. Between 2004 and 2009, Pembina has completed crack detection inspections on the Western Pipeline (Taylor to Kamloops), portions of the Peace Pipeline (LaGlace to Fox Creek), the 12 inch and 20 inch lines from Fox Creek to Edmonton, the 16 inch crude line from Judy Creek to Edmonton, the 16 inch NGL line from Judy Creek to Edmonton and on the 22 inch Horizon Pipeline. There were no ultrasonic inspections completed in 2011, however 4 line segments are planned for 2012. Data from initial and secondary inspection is analyzed by Pembina and third-party technical experts, in conjunction with pipeline pressure data, to design appropriate mitigation, repair and re-assessment programs.

In addition to the IMP for pipeline assets, Pembina also has regularly scheduled inspection and repair programs for the above and below ground storage tanks and pressure vessels. Pembina complies with inspection frequencies for pressure vessels set out by Pembina's Owner, User Program, registered with the Alberta Boilers Safety Association ("**ABSA**") and for atmospheric storage tanks by ERCB Directive 55. In 2011, Pembina completed 23 vessel inspections and 16 storage tank inspections. For each inspection, repairs are conducted as required to ensure compliance to applicable codes and standards. In addition, in 2011 Pembina's pressure equipment integrity management plans were audited by the ABSA. Both audits resulted in only minor findings which have been addressed with ABSA.

Environmental Matters

Operation of Pembina's pipelines and other assets is subject to environmental controls in the form of approvals and compliance with applicable federal, provincial, and local laws and regulations. Such laws and regulations govern, among other things, operating and maintenance standards, emissions and waste discharge and disposal. Management believes that Pembina's facilities and operations meet or exceed those requirements.

To confirm regulatory compliance and conformance with Pembina's internal environmental standards, Pembina has in place a planned environmental audit program. As part of the program, regularly scheduled third–party environmental audits are conducted on a six year rotating basis at various facilities each year. The program is designed such that each major facility is audited at least once every six years. In addition, Pembina has implemented an incident review panel which consists of a senior multi-disciplinary team that focuses on incident root causes and the elimination thereof.

Environmental Incidents

Pembina's focus on integrity management and safe operations continues to result in low incident frequency and minimal environmental impact. In 2008, after a severe flooding event, Pembina incurred a pipeline leak of an estimated 75–125 bbls of light sweet crude oil into the Red Deer River, approximately five kilometres north of Sundre, Alberta and approximately thirty kilometres south of Gleniffer Lake, Alberta. Pembina incurred approximately $3 million in expenditures on the containment and clean–up of this spill in 2008 and nominal amounts in 2009, 2010 and 2011. In 2011, Alberta Environment closed the environmental protective order related to this incident. A substantial portion of the expenditures of the Red Deer River spill were recovered from insurance.

On July 19, 2011, Pembina responded to a spill on its Moosehorn 8 inch gathering pipeline, approximately three kilometres north of its Swan Hills Terminal and Pump Station. The leak size was between 800 and 1,000 bbls of light sweet conventional crude oil. Pembina incurred approximately $19.3 million in expenditures on the clean-up efforts and environmental assessments related to this spill in 2011. The clean-up efforts are substantially complete. Activities related to this incident are now focused on monitoring and finalizing soil remediation. Pembina plans to replace a 10 km segment of 8 inch pipeline and expects the pipeline should be back in service in the second quarter of 2012. Pembina expects that the majority of these costs will be covered by its insurance.

Additionally, in late June 2011, extreme weather resulting in a flooding event occurred in northeast British Columbia. Pembina proactively shut-down its Western Pipeline system for a period of 15 days to minimize the potential risk of a pipeline incident. Pembina restarted the Western Pipeline system on July 11, 2011 and did not experience any material financial impact from this event.

Pembina spent approximately $3.25 million on other pre-existing spill sites in 2011, approximately $0.9 million on yearly environmental programs, monitoring, and audits, and approximately $1.6 million on the update and maintenance of Pembina's Emergency Response Planning.

In addition to the environmental expenses associated with its operations, Pembina also invests money and resources into environmental assessment, planning, and post–construction monitoring associated with capital projects.

Gas Services Expansion Plans

Pembina continues to see significant growth opportunities resulting from the trend towards liquids-rich resource play gas drilling and the extraction of valuable NGL from gas in the Western Canadian Sedimentary Basin. In 2011, Pembina's Gas Services team focused on expanding this line of business, capitalizing on its experience and expertise, and building out its capacity to extract liquids from the gas stream and transport them to market using Pembina's existing conventional pipeline network. This has resulted in four expansion projects and demonstrates the strength of the Corporation's integrated approach.

Two of these projects are expansions of Pembina's existing assets at its Musreau Gas Plant, one of the three plants that make up the Cutbank Complex:

- the Musreau Deep Cut Facility; and
- the Musreau shallow cut expansion.

The other two projects diversify Pembina's Gas Services operations and provide access into new geographic regions that are seeing similar increases by producers in development and the need for gas processing:

- the Resthaven Facility; and
- the Saturn Facility.

These four expansions are expected to bring Pembina's gas processing capacity to 890 MMcf/d (net), including enhanced NGL extraction capacity of approximately 535 MMcf/d (net), which would be processed largely on a contracted, fee-for-service basis and result in approximately 45,000 bpd of incremental NGL to be transported for additional toll revenue on Pembina's conventional pipelines by the end of 2013.

Expansion at the Cutbank Complex: Musreau Deep Cut Facility

Construction of Pembina's Musreau Deep Cut Facility, a new 205 MMcf/d NGL extraction facility and the related 10 km pipeline, is substantially complete. The final commissioning phase and start-up of the facility occurred on February 15, 2012, approximately five months behind its expected scheduled commissioning date of October 2011. This delay was largely the result of constraints related to the confined worksite at the facility. This new $90 million plant will deliver an NGL stream to Pembina's Peace Pipeline. Pembina has contracted approximately 80% of the planned capacity at the Musreau Deep Cut Facility and expects to contract the remaining capacity under terms designed to provide Pembina with cash flow certainty.

Expansion at the Cutbank Complex: Musreau Shallow Cut Expansion

Pembina also plans to expand Musreau's shallow cut gas processing capability by 50 MMcf/d at an estimated cost of $26 million. Once the expansion is complete, the Cutbank Complex is expected to have an aggregate raw gas processing capacity of 410 MMcf/d (355 MMcf/d net to Pembina), an increase of 16% net to Pembina. Subject to regulatory and environmental approval, the expansion is expected to be in-service by mid-2012. Pembina has entered into contracts with a minimum term of five years with area producers for the entire capacity of the expansion on a fee-for-service basis.

Expansion into Resthaven Region: the Resthaven Facility

Pembina announced on October 13, 2011 that it had entered into agreements to develop the Resthaven Facility, combined shallow cut and deep cut NGL extraction facility, by modifying and expanding an existing gas plant. Once operational, the initial phase of the Resthaven Facility will have a gross capacity of 200 MMcf/d and 13,000 bpd of NGL extraction capability, with ultimate processing capacity of 300 MMcf/d and 18,000 bpd of NGL extraction capability. Pembina plans to construct a 44 km, 6 inch diameter NGL pipeline to transport the extracted NGL from the Resthaven Facility to Pembina's Peace Pipeline, which delivers product into Edmonton, Alberta.

Once completed, Pembina will own approximately 65% of the Resthaven Facility and will own 100% of the NGL pipeline.

Based on certain assumptions, Pembina estimates that the Resthaven Facility, associated NGL pipeline, and storage facilities will cost approximately $230 million (net to Pembina). Subject to regulatory and environmental approvals, Pembina expects these new facilities to be in-service in late 2013. Pembina's investment in the Resthaven Facility is supported by long-term firm service agreements with two of the major area producers while the NGL pipeline is underpinned by long-term service agreements with the Resthaven Facility owners.

Pembina has executed a construction agreement and has ordered long lead equipment for the project. Other activities related to the project include stakeholder consultation, environmental planning, route selection, engineering, and right-of-way surveying.

Expansion into Berland Region: the Saturn Facility

Pembina announced on October 28, 2011 and has commenced construction of the Saturn Facility, a 200 MMcf/d enhanced NGL extraction facility, and associated NGL and gas gathering pipelines in the Berland area of west central Alberta, which will be owned and operated by Pembina.

The Saturn Facility will be connected to the Wild River and Bigstone gas plants through existing and newly constructed gas gathering lines. Once operational, Pembina expects the Saturn Facility will have the capacity to extract up to 13,500 bpd of NGL. Pembina plans to construct an 83 km, 8 inch NGL pipeline to transport the extracted NGL from the Saturn Facility to Pembina's Peace Pipeline.

Pembina expects the Saturn Facility, associated NGL and gas gathering pipelines and storage to cost approximately $200 million. Pembina expects the Saturn Facility and associated pipelines to be in-service in the fourth quarter of 2013 and has entered into a long-term, firm service agreement with a major producer.

Pembina has ordered 80% of the major, long lead equipment for the project. Environmental field assessments have been completed, stakeholder consultation is ongoing, final routing and work space requirements are being evaluated and regulatory meetings are underway.

For additional information on Pembina's Gas Services business, see "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Midstream & Marketing*".

Provisions

A provision is recognized if, as a result of a past event, the Corporation 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 (accretion) is recognized as a finance cost.

Decommissioning provision

The Corporation'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/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.

For more information with respect to the Corporation's estimated net present value of decommissioning obligations, see Note 14 to the Corporation's audited consolidated financial statements for the year ended December 31, 2011, which may be found on the Corporation's company profile on the SEDAR website at www.sedar.com.

Major Customers

There are approximately 50 shippers (including all major shippers of petroleum products in Western Canada) on the conventional pipeline systems owned and operated by Pembina. The major delivery points include the Enbridge Pipeline system, the Express Pipeline system, the refineries in the Edmonton area as well as the fractionators near Fort Saskatchewan, Alberta. Deliveries are also made to Husky Energy Inc.'s refinery in Prince George, British Columbia and to the Trans Mountain pipeline system owned by Kinder Morgan Canada Inc. at Kamloops, British Columbia.

The major shippers on Pembina's oil sands pipelines are CNRL and Syncrude (see "*Description of Pembina's Business and Operations – Overview – Oil Sands & Heavy Oil*") and the major customers at the Storage Facility are Dow Canada and NOVA Chemicals (see "*Description of Pembina's Business and Operations – Overview – Midstream & Marketing – Ethylene Storage*").

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

Competitive Environment

Competition in the oil and NGL feeder pipeline industry in Western Canada arises in two forms. Unconnected volumes of product are typically trucked to the most competitive truck unloading facility, and there is direct competition from other pipelines serving the same area. With respect to trucked volumes, the means by which a producer determines transport of its product is only partially based on tariffs, and is also based on whether the volumes need some form of treatment in order to meet pipeline specifications, as well as commercial competition to move volume based on blending opportunities. With respect to other pipelines, an example of this is the Alliance Pipeline that is a natural gas gathering and pipeline system carrying NGL-rich natural gas from northeastern British Columbia through northwestern Alberta to Chicago, Illinois. This pipeline competes for the volumes of NGL carried on the Peace Pipeline and/or the Northern Pipeline. Other examples of competing pipelines are the Rainbow Pipeline and the Rangeland Pipeline, which both compete with Pembina's pipelines both north and south of Edmonton, Alberta for crude oil and condensate volumes.

Pembina believes that it is well positioned to compete with other alternatives for transportation. In addition, Pembina has been active in attracting incremental volumes to its pipelines and entering into long term contracts with shippers and producers. Pembina further believes it is well positioned to respond to the competitive aspects inherent in the Midstream & Marketing business, through its expanding activity in this area, which should serve to provide producers with more options and increase the volumes of product transported on Pembina's feeder pipelines as compared to other pipelines serving the same area. As Pembina expands its presence across energy commodities and up and down the value chain, it expands its exposure to competition. On the terminalling side of the business, Pembina's feeder pipelines are connected into the main export terminals at Edmonton, Alberta as well as directly to consumers at both Fort Saskatchewan and Edmonton (refineries and fractionation facilities). Pembina does not experience direct competition for transport to these connections, however it does see other parties developing new terminalling opportunities for both storage and connectivity. Pembina believes it is well positioned to create new opportunities based on the location of its feeder pipelines and the physical location of the Pembina Nexus Terminal.

Competition for new natural gas gathering and processing infrastructure arises from both producers and other midstream entities. However, for existing infrastructure the predominant source of competition is producers. Competition is most pronounced for the simplest service offering, dehydration and refrigeration of sweet natural gas, as the barriers to entry for producers with significant development planned are relatively low. As service offerings become more comprehensive the barriers to entry become much more pronounced. In addition, a strong track record of operations excellence, safety and environmental responsibility is crucial.

Pembina believes it is well positioned to respond to the competitive aspects inherent in this business. Pembina's ability to provide a cost effective and integrated value proposition is unique, difficult to replicate and highly desired by the producing community. Pembina is the only operator within the Deep Basin able to offer an integrated NGL extraction and transportation solution. Pembina continues to explore opportunities to further enhance this value proposition and thereby strengthen its competitive position.

Industry Regulation and Tariffs

The feeder pipeline industry in Alberta normally operates in an environment of unregulated tariffs. Once a permit to construct the pipeline is issued by the ERCB or the AUC, as applicable, subject to the licensing of operational matters or a common carrier declaration, the pipeline is free to establish tariffs in a competitive environment. Tariffs are established under contracts of varying terms and conditions and are also posted by location. Posted tariffs generally can be adjusted to respond to changing volumes, costs and market circumstances. Contracted tariffs can also be adjusted, where permitted by the terms of the contract, for such things as changes in power costs, municipal taxes, environmental and safety costs. Pipeline customers have recourse to the ERCB or the AUC, as applicable, with respect to pipeline access and discrimination among customers, if they can establish that the pipeline should be declared to be a common carrier. Once declared a common carrier, the ERCB or the AUC, as applicable, has the authority to set rates for the pipeline. No pipeline owned by Pembina in the province of Alberta has ever been declared to be a common carrier. Tariffs for all of Pembina's Alberta Pipelines are generally established to recover all costs and earn a reasonable rate of return on the investment in its pipelines. On the Oil Sands & Heavy Oil pipelines, tariffs are calculated subject to long-term contracts which provide for payment of the tariff regardless of use of the system. The shippers on the Syncrude Pipeline, the Horizon Pipeline and the Cheecham Lateral have agreed not to apply to the Alberta regulator to review tariffs during the term of their agreements.

In British Columbia the tariffs on the NEBC Pipeline and the Western Pipeline are regulated by the BCUC. The BCUC approves tariffs for common carriers and regulates others on a complaints basis. In 2008, Pembina reached toll settlements with its current shippers on the Western Pipeline and obtained the approval of the BCUC for these settlements. In 2009, the BCUC approved a toll increase on the Taylor to Kamloops portion of the Western System. The toll settlements, which were effective until February 29, 2012 and are currently under renegotiation, represent a collaborative agreement between Pembina and its shippers and include an incentive for the shippers to continue using the Western Pipeline. Pembina believes that the agreed upon tolls will provide it with a reasonable return on its capital and reimbursement of its operating expenses. Pembina is currently negotiating a new contract with its Western Pipeline shippers and anticipates arriving at binding agreements by the second quarter of 2012. See " – *Overview – Conventional Pipelines*".

Small segments of the Peace Pipeline, the Northern Pipeline and the NEBC Pipeline are Group II NEB regulated pipelines. For these pipeline systems the NEB only reviews the tariffs if a customer files a formal complaint concerning the tariffs. There have been no complaints to the NEB on tariffs on these systems for so long as Pembina has owned and operated them.

Contractual Arrangements

Transportation and Storage

There are a number of service contracts on Pembina's pipeline systems. On the Syncrude Pipeline, Pembina has a contract to ship Syncrude Project production until 2035 and is currently the sole transporter of SCO produced from the Syncrude Project. This arrangement provides for a tariff that recovers all operating costs and provides for a return on current and future invested capital and is not dependent on throughputs. This contract automatically extends beyond 2035 if Syncrude's operating permit is extended. See " – *Overview – Oil Sands & Heavy Oil – Syncrude Pipeline*". Pembina also has a contract in place for the Cheecham Lateral. This contract generates fixed returns under an extendible 25 year agreement and provides for full flow–through of operating expenses. See " – *Overview – Oil Sands & Heavy Oil – Cheecham Lateral*". On the Horizon Pipeline, Pembina has a contract to ship Horizon Project production until 2033, subject to extension, and has exclusive rights to construct any expansions or extensions to this pipeline. This contract provides for a fixed rate of return on current and future invested capital and is not dependent on throughputs. See " – *Overview – Oil Sands & Heavy Oil – Horizon Pipeline*". In 2008, Pembina negotiated a toll settlement on the Western Pipeline with its shippers, which is currently under renegotiation and Pembina anticipates arriving at binding agreements by the second quarter of 2012. This contract provides Pembina with revenue certainty and incents the current shippers to continue using the Western Pipeline. See " *– Industry Regulation and Tariffs*" and " *– Overview – Conventional Pipelines*". Pembina also has contracts in place for the Storage Facility described above under " *– Overview – Midstream & Marketing – Ethylene Storage*". The Nipisi Pipeline and Mitsue Pipeline are also fully contracted over an initial 10 year term from the in–service date, with extension rights. The Nipisi TSAs and Mitsue TSAs provide for committed ship–or–pay throughput. The tolls on these pipelines provide for a fixed capital component charge and a flow through of operating expenses. See "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Oil Sands & Heavy Oil – Nipisi Pipeline and Mitsue Pipeline*". See also "*Risk Factors – Risks Inherent in Pembina's Business*".

Cutbank Complex

As part of its acquisition of the Cutbank Complex in 2009, Pembina indirectly took assignment of approximately 65 gathering and processing contracts with area producers. Under the contractual arrangements associated with the Cutbank Complex, Pembina is not directly exposed to the impact of market fluctuations in the price of natural gas and NGL. The gathering and processing business is based on charging fees to customers on the volume of raw gas that is gathered and/or processed through its facilities and the fees are based on a fixed fee methodology. The processor has flexibility to tailor the fees it charges customers to capitalize on market conditions and to meet different levels of services. In the case of raw gas processing fees, the fee is usually based on the composition of the raw gas stream being processed and the level of competition in the area.

The contracts associated with the Cutbank Complex are comprised of a mixture of firm and interruptible service contracts of varying durations. A number of the firm service contracts contain provisions dedicating specified areas of gas reserves to the Cutbank Complex facilities, which in turn provides some assurance that a substantial portion of natural gas produced from reserves developed in these areas will be processed at the Cutbank Complex. The contractual fee structure incorporates a capital fee based on functional unit usage, and nearly all of the contracts include provisions for the recovery of operating costs, including overhead and certain environmental costs.

Over 88% of the capacity associated with the Cutbank Complex is on a firm service basis until 2014. Several of the firm service contracts incorporate a "take or pay" or "produce or pay" commitment which allows the processor to manage capacity utilization and revenue risk. In 2011, approximately 78% of revenue from the Cutbank Complex was derived from contracts containing "take or pay" commitments.

Power

Power is a significant component of the cost of operations, constituting approximately 18.8% of total operating expenses for the Corporation in 2011. In Alberta, as part of Pembina's risk management program, and in order to minimize exposure to power cost fluctuations and to smooth Pembina's operating results and tariffs, Pembina has hedged approximately 100% of its expected budget year Alberta Pipelines power requirement. Power costs are not hedged for the B.C. Pipelines as costs and returns, including the cost of power, are regulated by the government in that province. At the request of its customers, Pembina does not currently hedge power costs on its Oil Sands & Heavy Oil pipelines and power costs are flowed through to the shippers of these systems.

Pipeline Rights–of–Way and Land Tenure

Pembina's real property interests fall into two basic categories of ownership: (i) a number of locations, including many pumping stations and terminal and storage facilities, which are owned in fee simple; and (ii) the majority of locations which are covered by leases, easements, rights–of–way, permits or licences from landowners or governmental authorities permitting the use of such land for the construction and operation of a pipeline. Pembina believes that the operator of each of its pipeline assets has sufficient title to its property interests to permit the operation of such assets.

Indemnification and Insurance

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

In addition, Pembina maintains director and officer liability coverage consistent with industry practice.

Pembina believes that it has procured such insurance coverage as would be maintained by a prudent owner and operator of the type of assets owned and operated by Pembina. This insurance coverage is subject to limits and exclusions or limitations on coverage that Pembina considers to be reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that insurance coverage will be adequate in any particular situation.

Employees

As at December 31, 2011, Pembina employed 494 personnel, of which 287 were engaged in the performance of field operations and superintendence activities, and 216 were engaged in the performance of facilities engineering, systems, management, finance, accounting, administration, human resources, information services, drafting, business development and safety and environmental service activities. All employees are non–unionized. Pembina's workforce is relatively stable with limited turnover and employees are financially encouraged to remain in Pembina's employment through options to purchase Common Shares, long-term incentive programs and pension plans, all which vest over time.

WESTERN CANADIAN OIL AND GAS INDUSTRY

Western Canada Oil and Gas Industry

Western Canada is the major source of conventional crude oil, SCO, natural gas, bitumen and related products (including NGL and condensate) in Canada. Domestic crude oil and natural gas production in the West comes primarily from Alberta with lesser amounts from British Columbia, Saskatchewan, Manitoba and the Northwest Territories. SCO comes from the oil sands developments near Fort McMurray, Alberta. Efficient, low cost, and safe transportation by pipeline, rail and truck from producing fields to refineries, processing plants and domestic and export markets is essential to the Canadian oil and gas industry.

Supply and Production of Canadian Oil and Gas

Western Canada's hydrocarbon resource base is large and diverse, comprised of conventional light oil, heavy oil, bitumen, natural gas and NGL.

Bitumen occurs naturally in oil sands and once recovered and processed to separate the bitumen from the oil sands, produces SCO. Bitumen may be recovered in two ways. Approximately 20% of bitumen in Alberta occurs in oil sands near enough to the surface that it can be mined and moved by trucks to a cleaning facility. The remaining 80% of Alberta's oil sands must be extracted using a variety of in–situ processes. These in–situ processes use steam, solvents or thermal energy to allow the bitumen to be pumped to the surface. Because bitumen is so viscous, it requires dilution with lighter hydrocarbons to make it transportable by pipelines.

The Canadian NGL industry involves the production, transportation and marketing of products that are extracted from natural gas prior to its sale to end use customers. The profitability of the industry is based on the products extracted being of greater economic value as separate commodities (net of the costs of extraction) than as components of natural gas. NGL extraction facilities recover certain higher value hydrocarbons, such as ethane, propane, butane and condensate, from natural gas for sale in a liquid form. In Canada, almost 90% of NGL supply in Western Canada is derived from natural gas processing, with the remainder derived from the refining of crude oil.

NGL are extracted from raw natural gas primarily at three distinct types of facilities: natural gas field plants, natural gas mainline straddle plants and oil refineries. Typically, NGL are extracted as a mix but if an additional investment is made in "fractionation" facilities, the individual components can be separated. Most field plants do not extract ethane but leave it in the natural gas. In Alberta, a significant portion of the residual NGL, including ethane, which has been left in the natural gas may be extracted at a straddle plant located on a major natural gas transmission pipeline and then sold as feedstock to the petrochemical industry. Due to the scope of their operations, these straddle plants are equipped to remove significantly higher volumes of ethane and heavier components than can typically be removed by most field processing plants.

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

Crude oil, SCO and NGL produced in Canada are transported to market through extensive gathering and transportation systems which can be classified as feeder pipeline systems and export pipeline systems.

Demand for Canadian Oil and Gas Products

Demand for Canadian crude oil, condensate and NGL production is determined by the degree to which such products can compete on the basis of price, quality and availability in individual market areas in Canada and the northern and eastern United States.

NGL are generally used directly as an energy product and as a feedstock for the petrochemical and crude oil refining industries however the specific uses for NGL vary substantially by product. Ethane is used primarily as feedstock for the petrochemical industry and as a miscible flood agent for enhanced crude oil recovery operations. A significant amount of the ethane produced in the Western Canadian Sedimentary Basin is sold through long-term contracts for feedstock to Alberta's petrochemical industry. Of particular note, the petrochemical industry is currently short on ethane, one of the predominant components in NGL, and is therefore considering importing this product from the considerably larger United States ethane market. Propane, which typically makes up over 65% of the propane-plus extracted from natural gas at straddle plants, is sold to multiple end-user markets. Uses for propane include home and commercial heating, crop drying, food processing, cooking and motor fuel. Butane, which typically makes up approximately 25% of the propane-plus extracted from natural gas at straddle plants, is used primarily in gasoline blending. Pentane-plus, which represents less than 10% of propane-plus extracted from natural gas at straddle plants, is used as a diluent to decrease the viscosity of heavy crude oil for shipment through pipelines and as refinery feedstock to make gasoline.

Almost all of the condensate produced in Alberta is used locally as a diluent for heavy oil. Many major oil sands projects are in production or slated for development over the next decade in northern Alberta. Assuming these projects continue to proceed as planned, it is anticipated that future demand for condensate as a diluent will grow. This is expected to result in an increase in demand for diluents supply, storage and logistics services in the Fort Saskatchewan area. Western Canada produces more crude oil and NGL than it requires for domestic use and surplus supplies are transported by pipeline to markets in other parts of Canada as well as the United States.

While Canadian crude oil, condensate and NGL producers will face continuing competition in the United States market from United States Gulf Coast and Latin American producers, factors, including proximity to United States markets and the reliability of supply through the expanded Canadian domestic and export transportation system, favour Canadian producers.

Commodity Pricing

Crude oil prices appreciated during the year, as the West Texas Intermediate average spot price increased from US $79.48 per bbl in 2010 to US $95.05 per bbl in 2011 due to strong market dynamics. Natural gas prices on the NYMEX Henry Hub average spot price decreased from an average of US $4.37 per million British thermal units ("**mmBtu**") in 2010 to US $4.00 per mmBtu, largely due to oversupply given storage levels in North America and the ongoing development of large resources located in shale basins in the United States. The combination of relatively high oil prices and low gas prices had led commodity producing firms to focus on liquids production, namely crude oil and liquids-rich natural gas. It is expected that this trend will continue to prevail in the near term.

The value potential associated with any service offerings is dependent upon the ability of Pembina to: provide connections to both downstream pipelines and end-use markets; understand the value of the commodities transported and terminalled; provide flexibility and a variety of storage options; and adjust to a liquid, responsive, forward commodity market. Pembina actively monitors market conditions and stream values to target revenue opportunities. Pembina is also proactively working with upstream and downstream customers to develop value-added terminalling solutions and increase available optionality.

Feeder Pipeline Systems

Feeder pipeline systems gather petroleum products from producing fields and facilities for transport to regional centres for storage, fractionation, refining and connection to larger pipelines. From these centres, petroleum products are further transported by export pipeline systems either to domestic markets in western or eastern Canada or to markets in the northern United States for end–use, or used as feedstock in refineries or the petrochemical industry. The major operational centre for the Canadian oil and natural gas industry is the Edmonton and Fort Saskatchewan area of Alberta, which is both the largest crude oil refining area in Western Canada and a major fractionation and market hub area for NGL and related products. In addition, the Edmonton and Fort Saskatchewan area is the hub of the Alberta feeder pipeline network and the starting point of the large Canadian export pipelines.

All of Pembina's pipelines are feeder pipeline systems that collectively transported approximately 782 Mbpd of petroleum products in 2011. These pipelines primarily transport product from established production fields in their respective service areas, the Syncrude Project or the Horizon Project, into the refining and export pipeline centres at Edmonton and Fort Saskatchewan. Upon delivery, the products can be used by local refineries and fractionators or may be transported to markets in western and eastern Canada and the northern United States through export pipelines. The Cheecham Lateral transports SCO from an existing pump station on the Syncrude Pipeline to a terminalling facility located near Cheecham, Alberta, where it is then used as diluent for oil sands projects in the area. The Nipisi Pipeline and Mitsue Pipeline also came on-stream in 2011, which provide transportation for operators in the Pelican Lake and Peace River heavy oil regions of Alberta.

Feeder pipeline gathering systems generally experience reduced volumes during the spring months as a result of weight restrictions on roads, producers conducting maintenance on their batteries and gas plant turnarounds. The magnitude and duration of road weight restrictions are dependent upon spring weather conditions. Many battery operators also perform maintenance work on production facilities during the spring months. Road restrictions and battery maintenance can also impact gathering pipeline receipts during the fall months, although the impact on throughput is generally less pronounced than during the spring months.

Terminals and Hubs

Growth in crude oil midstream opportunities is largely focused on receipt and delivery terminals, storage and other hub services. Crude oil production ends up being consumed in refineries. Refineries can be located anywhere along the value chain, from the outlet of a feeder pipeline to mid-point hubs to transmission pipeline end-points, to the international locations assessable to marine transport. For demand locations directly connected to Pembina's feeder pipelines, there is a requirement for the service of managing supply and balancing between the pipeline and the customer. With changes to crude oil production, declines in conventional volumes and the growth in heavy oil, there is an interest by refiners in having custom blends produced to optimize their process without having to undertake major capital projects to reconfigure the refineries for a changing crude production slate. Where pipelines converge, there is also a requirement to manage the product flow between the systems. Historically this has been buffered through tankage downstream of Pembina's operations. As the storage is owned by others, it may or may not meet Pembina's requirements. There is an internal demand for hub storage which will not only buffer flows for downstream deliveries, but also smooth operation of Pembina's complex batched conventional pipelines. As a further service category, with the growth in demand for diluents for heavy oil transportation, there is a growing demand to manage diluents prior to injection into the various diluent delivery pipelines. This demand includes accessing the greatest variety of diluents, managing specific diluent blends to differing customer needs and storage.

On the receipt side, Pembina's truck terminals are a means for oil, condensate and NGL production, which is not pipeline connected, to secure access to transportation to market. With the growth in multi-stage fractionation and production techniques, there is also growing demand to treat emulsion, oil-water mixtures and waste water, prior to being ready for sale and accepted into a pipeline. The treating of emulsion and disposal of associated water is a business expansion opportunity. In 2011, Pembina stated its plans to become more active in providing these kinds of services, and to increase the business at existing and new facilities.

Gas Gathering and Processing

Natural gas gathering and processing infrastructure gathers raw natural gas from the producing wells to the central processing facility where impurities such as condensate, NGL entrained in the gas, hydrogen sulphide, carbon dioxide and water are removed to make a marketable natural gas product. The gas is then compressed and delivered to one of the major market systems which include the ATCO Gas and Pipelines Ltd. gas transmission system, the Alliance Pipeline Limited Partnership system, the NGTL system and the Spectra system in British Columbia. The exact nature of the processing will vary depending on the type of raw gas supply.

At most facilities, only sufficient NGL to make the residual gas marketable is extracted, however, with the addition of enhanced processing facilities such as Pembina's Musreau Deep Cut Facility, further NGL extraction is possible to ensure the maximum amount of NGL is recovered. NGL products are generally priced relative to oil, so this additional level of recovery is dependent on the relative value between oil and natural gas. As the relative price of oil versus natural gas increases, the impetus for this activity is increasingly wide spread.

The Cutbank Complex is located in the heart of the Alberta Deep Basin natural gas region, one of the most active exploration areas in the Western Canadian Sedimentary Basin. The Cutbank Complex gathers and processes natural gas with no hydrogen sulphide and minimal carbon dioxide, but relatively high entrained NGL content. Pembina believes that the competitive development cost structure of this region, in combination with its excellent supply potential, make this an attractive area for development, even in challenging commodity price environments. This region also has the capability to produce large quantities of NGL, which can be transported to market through Pembina's Peace Pipeline.

At the Musreau Gas Plant in the Cutbank Complex, Pembina has completed work on the now operational Musreau Deep Cut Facility, an enhanced NGL extraction facility and is currently expanding its existing shallow cut gas processing capability.

Pembina completed construction of the Musreau Deep Cut Facility, including a new 205 MMcf/d ethane extraction facility and the related 10 km pipeline, in 2011 and commissioning of the facility occurred on February 15, 2012. This new plant delivers an ethane mix stream to the Peace Pipeline.

On July 27, 2011, Pembina also announced plans to expand the Musreau Gas Plant's shallow cut gas processing capability by 50 MMcf/d due to high plant utilization and strong customer demand arising from positive drilling results. Subject to regulatory and environmental approval, the expansion is expected to be in-service by mid-2012.

Export Liquids Pipeline Systems

The export liquids pipelines originating in the Edmonton and Fort Saskatchewan area are the Express Pipeline, the Enbridge Pipeline and the Cochin Pipeline. Crude oil and refined products delivered to domestic and export markets on the west coast are transported through the Express Pipeline. Crude oil and refined products delivered to eastern Canada and the northern United States are transported through the Enbridge Pipeline. NGL delivered to eastern

Canadian and export markets are transported through the Enbridge Pipeline and the Cochin Pipeline. The TCPL Keystone Pipeline also exports crude oil from Hardisty, Alberta. However, none of Pembina's systems are directly connected to Keystone

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

DESCRIPTION OF THE CAPITAL STRUCTURE OF THE CORPORATION

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of a class of preferred shares designated as Preferred Shares, Series A (the "**Preferred Shares**"). As of December 31, 2011, there were 167,908,271 Common Shares outstanding, 2,674,380 Common Shares reserved for issuance pursuant to the 2011 Option Plan, 10,500,176 Common Shares reserved for issuance pursuant to the Convertible Debentures and 101,400,000 Preferred Shares outstanding (all of which Preferred Shares are owned by the Corporation's wholly-owned subsidiary, Alberta Oil Sands Pipeline Ltd.).

The following is a summary of the rights, privileges, restrictions and conditions attaching to the Common Shares and Preferred Shares.

Common Shares

Holders of Common Shares are entitled to receive notice of and to attend all meetings of Shareholders of Pembina and to one vote at such meetings for each Common Share held. The holders of the Common Shares are, at the discretion of the Board of Directors of Pembina and subject to applicable legal restrictions, entitled to receive any dividends declared by the Board of Directors of Pembina on the Common Shares, and are entitled to share in the remaining property of Pembina upon liquidation, dissolution or winding up, subject to the rights of the Preferred Shares, described below.

Preferred Shares

As noted above, all of the Corporation's outstanding Preferred Shares are currently owned by the Corporation's wholly-owned subsidiary, Alberta Oil Sands Pipeline Ltd. Holders of Preferred Shares shall not be entitled to receive notice of, to attend or to vote at any meeting of the Shareholders of the Corporation, except as required by law. The Preferred Shares are retractable and redeemable at the option of the holder thereof and the Corporation, respectively. The price or consideration payable at which each Preferred Share shall be retracted or redeemed (the "**Redemption Amount**") shall be the fair market value of the consideration received therefor as determined by the Board of Directors of the Corporation at the time of issuance of the Preferred Shares, as adjusted from time to time pursuant to the terms of the Preferred Shares.

If at any time a holder of Preferred Shares ceases to be, or is not, a direct or indirect wholly owned subsidiary of the Corporation, the Corporation, with or without knowledge of such event, shall be deemed, without further action or notice, to have automatically redeemed all of the Preferred Shares held by such holder in exchange for the Redemption Amount.

The holders of Preferred Shares shall be entitled to receive, if and when declared by the Board of Directors of the Corporation, preferential non-cumulative dividends based on the Redemption Amount applicable to such shares at the rate to be set by the Board of Directors of the Corporation.

Upon the liquidation, dissolution or winding-up of the Corporation, the holders of Preferred Shares shall be entitled to receive for each such share, in priority to the holders of Common Shares, the Redemption Amount per share together with all declared but unpaid dividends thereon.

Premium Dividend™ and Dividend Reinvestment Plan

Upon the completion of the Corporate Conversion, the Corporation assumed and amended and restated the Fund DRIP and all associated agreements, such that the Fund DRIP became the PPC DRIP. See "*Pembina Pipeline Corporation – Corporate Conversion*". For periods during which the PPC DRIP is not suspended, the PPC DRIP provides Shareholders of the Corporation the opportunity, subject to eligibility restrictions, withholding taxes and prorating as provided for in the plan, to either receive a cash payment equal to 102% of any cash dividends otherwise payable by the Corporation or accumulate additional Common Shares at a 5% discount to an average market price. Pembina will determine, for each dividend payment date during a period for which the PPC DRIP is not suspended, the amount of new equity or premium cash payments, if any, that will be made available under the PPC DRIP on that date. On March 16, 2010, the Fund announced that it was suspending the Fund DRIP effective April 25, 2010. The Corporation reinstated the PPC DRIP effective as of the January 25, 2012 record date and the corresponding dividend payable on February 15, 2012.

Medium Term Notes

On March 29, 2011, the Corporation issued and sold $250 million aggregate principal amount of Medium Term Notes. The Medium Term Notes have an annual coupon rate of interest of 4.89% and mature on March 29, 2021. Pembina's obligations under the Medium Term Notes and the Medium Term Note Indenture were initially unconditionally guaranteed by the following of its subsidiary entities: Pouce Coupé Pipe Line Ltd.; Plateau Pipe Line Ltd.; Alberta Oil Sands Pipeline Ltd.; Pembina Pipeline; Pembina North Limited Partnership; Pembina West Limited Partnership; Pembina Oil Sands Pipeline L.P.; Pembina Marketing Ltd.; Pembina Midstream Limited Partnership; Pembina Gas Services Ltd.; and Pembina Gas Services Limited Partnership.

Pembina may redeem the Medium Term Notes, either in whole at any time, or in part from time to time, upon not less than 30 and not more than 60 days prior notice, at a price equal to the greater of (i) par and (ii) the Canada Yield Price (as defined below), plus, in either case, accrued but unpaid interest, if any, to but excluding, the date of redemption. "**Canada Yield Price**" means, in effect, a price equal to the price of the Medium Term Notes calculated in accordance with generally accepted financial practice in Canada to provide a yield to maturity equal to the Government of Canada Yield (as defined below) plus 0.395% per annum for the Medium Term Notes issued on March 29, 2011. "**Government of Canada Yield**" means, on any date, in effect, the yield to maturity on such date compounded semi-annually which a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Notes. The Government of Canada Yield will be the average of the yields determined by two major Canadian investment dealers selected by Pembina. In certain circumstances following a Change of Control (as such term is defined in the Medium Term Note Indenture) and a resulting downgrade in the ratings of the Medium Term Notes to below an investment grade, Pembina will be required to make an offer to repurchase all or, at the option of any holder of Medium Term Notes, any part, at a purchase price payable in cash equal to 101% of the aggregate outstanding principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase.

Convertible Debentures

On November 24, 2010, the Corporation issued $300 million of Convertible Debentures maturing on November 30, 2020. The Convertible Debentures may be converted at the option of the holder at a conversion price of $28.55 per Common Share subject to adjustment in certain circumstances, at any time prior to maturity and may be redeemed by the Corporation. On and after November 30, 2014 and prior to November 30, 2016, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of the Corporation on not more than 60 days' and not less than 30 days' prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price on the date on which the notice of redemption is given is not less than 125% of the conversion price. On and after November 30, 2016, the Convertible Debentures may be redeemed in whole or in part from time to time at the option of the Corporation on not more than 60 days' and not less than 30 days' prior notice at a price equal to their principal amount plus accrued and unpaid interest.

The Corporation can elect to pay interest on the Convertible Debentures by issuing Common Shares. As at December 31, 2011, $299.8 million principal amount of these Convertible Debentures were outstanding.

In addition, within 30 days following the occurrence of a Change of Control (as such term is defined in the Convertible Debenture Indenture), the Corporation will be required to make an offer in writing to purchase all of the Convertible Debentures then outstanding (the "**Debenture Offer**"), at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest thereon. If a Change of Control occurs in which 10% or more of the consideration for the voting securities in the transaction or transactions constituting a Change of Control consists of: (i) cash; (ii) equity securities that are not traded or intended to be traded immediately following such transactions on a stock exchange; or (iii) other property that is not traded or intended to be traded immediately following such transactions on a stock exchange, then during the period beginning ten trading days before the anticipated date on which the Change of Control becomes effective and ending 30 days after the Debenture Offer is delivered, holders of Convertible Debentures will be entitled to convert their Convertible Debentures at a conversion price determined in accordance with the terms of the Convertible Debenture Indenture.

For additional information regarding the Convertible Debentures, see Note 13 to the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

Credit Ratings

DBRS Limited

DBRS Limited ("**DBRS**") has assigned a debt rating of "BBB (high)" to the Secured Senior Notes and has also assigned a rating of "BBB (high)" to the Medium Term Notes.

On January 16, 2012, DBRS placed the "BBB (high)" ratings of the Secured Senior Notes and the Medium Term Notes Under Review with Negative Implications following the announcement of the Arrangement with Provident. As a result, the Corporation's ratings could be downgraded following completion of the Arrangement.

The BBB rating is the fourth highest of DBRS' ten rating categories for long–term debt, which range from AAA to D. DBRS uses "high" and "low" designations on ratings from AA to C to indicate the relative standing of securities being rated within a particular rating category. The absence of a "high" or "low" designation indicates that a rating is in the "middle" of the category. The BBB rating indicates that, in DBRS's view, the rated securities are of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

When a significant event occurs that directly impacts the credit quality of a particular entity or group of entities, DBRS will attempt to provide an immediate rating opinion. However, if there is uncertainty regarding the outcome of the event, and DBRS is unable to provide an objective, forward-looking opinion in a timely fashion, then the ratings of the issuer will be placed "Under Review".

Standard & Poor's

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("**S&P**") has assigned long-term corporate credit and bank loan ratings on the Corporation of "BBB+". S&P has also assigned a rating of "A-" to the Corporation's Secured Senior Notes and a rating of "BBB+" to the Medium Term Notes.

On January 18, 2012, S&P announced that it placed its ratings, including its "BBB+" long-term corporate credit rating, on the Corporation on CreditWatch with negative implications. As a result, the Corporation's ratings could be lowered following completion of the Arrangement.

The A rating is the third highest rating, and the BBB rating is the fourth highest rating, of S&P's ten rating categories for long–term debt which range from AAA to D. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (–) sign to show relative standing within the major rating categories.

Issues of debt rated A are judged by S&P to be somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher–rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still viewed by S&P to be strong.

Issues of debt securities rated BBB are judged by S&P to exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

CreditWatch highlights S&P's opinion regarding the potential direction of a short-term or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P's analytical staff. A CreditWatch listing, however, does not mean a rating change is inevitable.

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

See "*Risk Factors – Risks Inherent in Pembina's Business – Credit Ratings*".

The Corporation's Credit Facilities and Senior Notes

Credit Facilities

Pembina's credit facilities as at December 31, 2011 consisted of an unsecured $500 million revolving credit facility due July 24, 2012 (the "**Revolving Credit Facility**") and an unsecured operating facility of $50 million (the "**Operating Credit Facility**"), due July 2012. Current borrowings on the Operating Credit Facility bear interest at, in the case of Canadian prime rate loans and U.S. base rate loans, prime lending rates or U.S. base rates plus 1.50% to 3.50% or, in the case of bankers' acceptances, letters of credit and LIBOR loans bankers' acceptance stamping fee rates, letter of credit fee rates and LIBOR rates plus 2.50% to 4.50%. Margins 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, 2011, Pembina had approximately $314.9 million drawn on bank debt (including $1.1 million in letters of credits), leaving $235.1 million of cash and unutilized debt facilities (bank indebtedness as at December 31, 2011 was $0.7 million) on the $550 million of established bank facilities.

Other Debt

Other debt at December 31, 2011 included $58 million in fixed rate Secured Senior Notes due 2017; $75 million in fixed rate unsecured senior term debt due 2014; $175 million in fixed rate Unsecured Senior Notes due 2014; $267 million in fixed rate unsecured Series D Senior Notes due 2019; $200 million in fixed rate Series C Senior Notes due 2021; and, $250 million in Medium Term Notes due 2021.

New Credit Facilities

On March 20, 2012, the Revolving Credit Facility was replaced with new credit facilities (the "**New Credit Facilities**"). The New Credit Facilities consist of an unsecured $800 million revolving credit facility due March 20, 2017 (with, subject to the satisfaction of certain conditions precedent under the New Credit Facilities, the ability to expand such unsecured revolving credit facilities to $1,500 million upon completion of the acquisition of Provident pursuant to the Arrangement Agreement). Borrowings on the New Credit Facilities bear interest at, in the case of Canadian prime rate loans or U.S. base rate loans, prime lending rates and U.S. base rates plus 0.00% to 1.25% or bankers' acceptance stamping fee rates, letter of credit fee rates and LIBOR rates plus 1.00% to 2.25%.

The agreements governing the New Credit Facilities provide that if an event of default has occurred under the credit facilities, the indebtedness may be accelerated by the lenders, and the ability to pay dividends to Shareholders thereupon ceases. Under the New Credit Facilities, the Corporation is restricted from making distributions, in the case of declared dividends, at any time during the continuance of an event of default or, in the case of undeclared dividends, at any time during the continuance of an event of default or if at any time such distribution would, or would reasonably be expected to, result in a default or an event of default.

The terms for the Revolving Credit Facility, the Operating Credit Facility and the Senior Notes are summarized in the Corporation's management's discussion and analysis for the year ended December 31, 2011 and in Note 13 to the audited consolidated financial statements of the Corporation for the year ended December 31, 2011. See "*Risk Factors – Risks Inherent in Pembina's Business – Debt Service*".

Other Operating Subsidiaries

Pembina's interests in its pipeline systems and other assets are held in several partnerships and limited partnerships, all of which are, directly or indirectly, wholly–owned by the Corporation. See "*Pembina Pipeline Corporation – Organizational Structure of the Corporation*". The cash generated from the operations of such entities is paid to the Corporation through partnership distributions and other payments.

RISK FACTORS

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

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision.

Risk Factors Relating to the Structure of the Corporation and the Common Shares

Dilution of Shareholders

The Corporation is authorized to issue, among other classes of shares, an unlimited number of Common Shares for consideration and on terms and conditions as established by the Board of Directors without the approval of Shareholders in certain instances. The Shareholders will have no pre-emptive rights in connection with such further issues.

Risk Factors Relating to the Activities of the Corporation and the Ownership of Common Shares

The following is a list of certain risk factors relating to the activities of the Corporation and the ownership of Common Shares:

- the level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise;

- the uncertainty of future dividend payments by the Corporation and the level thereof as the Corporation's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, operating cash flow generated by the Corporation and its subsidiaries, financial requirements for the Corporation's operations and the execution of its growth strategy and the satisfaction of solvency tests imposed by the ABCA for the declaration and payment of dividends;

- the Corporation may make future acquisitions or may enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive;

- the inability of the Corporation to manage growth effectively, and realize the anticipated growth opportunities from reorganizing the Fund into a corporate structure, could have a material adverse impact on its business, operations and prospects; and

- the risk that the market value of the Common Shares may materially deteriorate if the Corporation is unable to meet its cash dividend targets or make cash dividends in the future.

Market Value of Common Shares and Other Securities

Pembina cannot predict at what price the Common Shares, Convertible Debentures or other securities issued by the Corporation will trade in the future. Common Shares, Convertible Debentures and other securities of the Corporation will not necessarily trade at values determined solely by reference to the underlying value of Pembina's assets. One of the factors that may influence the market price of such securities is the annual yield on the Common Shares and the Convertible Debentures. An increase in market interest rates may lead purchasers of Common Shares or Convertible Debentures to demand a higher annual yield and this could adversely affect the market price of the Common Shares or Convertible Debentures. In addition, the market price for the Common Shares and the Convertible Debentures may be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of Pembina.

Shareholders are encouraged to obtain independent legal, tax and investment advice in their jurisdiction of residence with respect to the holding of Common Shares.

Risks Inherent in Pembina's Business

Operational Risks

Operational risks include: pipeline leaks; the breakdown or failure of equipment, information systems or processes; 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; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs, and other similar events, many of which are beyond the control of Pembina. The occurrence or continuance of any of these events could increase the cost of operating Pembina's assets or reduce revenues, thereby impacting earnings.

Pembina is committed to preserving customer and Shareholder value by proactively managing operational risk through safe and reliable operations. Senior managers are responsible for the daily supervision of operational risk by ensuring appropriate policies and procedures are in place within their business units and internal controls are operating efficiently. Pembina also has an extensive program to manage system integrity, which includes the development and use of in–line inspection tools and various other leak detection technologies. Maintenance, excavation and repair programs are directed to the areas of greatest benefit and pipe is replaced or repaired as required. The Corporation carries insurance coverage with respect to some, but not all, casualty occurrences in amounts customary for similar business operations, which coverage may not be sufficient to compensate for all casualty occurrences. In addition, Pembina has a comprehensive security program designed to reduce security-related risks.

Midstream & Marketing Business — Commercial Operations

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

Regulation

Legislation in Alberta and British Columbia exists to ensure that producers have fair and reasonable opportunities to produce, process and market their reserves. In Alberta, the ERCB or the AUC, as applicable, and in British Columbia, the BCUC, may, on application and following a hearing (and in Alberta with the approval of the Lieutenant Governor in Council), declare the operator of a pipeline a common carrier of oil or NGL and, as such, must not discriminate between producers who seek access to the pipeline. Producers and shippers may also apply to the regulatory authorities for a review of tariffs, and such tariffs may then be regulated if it is proven that the tariffs are not just and reasonable. Applications by producers to have a pipeline operator declared a common carrier are usually accompanied by an application to have the tariffs set by the regulatory authorities. The extent to which regulatory authorities in such instances can override existing transportation or processing contracts has not been fully decided. The potential for direct regulation of tolls, other than for the Corporation's provincially regulated B.C. Pipelines, while considered remote by the Corporation, could result in toll levels that are less advantageous to the Corporation and could impair the economic operation of such regulated pipeline systems.

Reputation

Reputational risk is the potential for negative impacts that could result from 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 business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity and regulatory and legal risks must all be managed effectively to safeguard Pembina's reputation. Negative impacts from a compromised reputation could include revenue loss, reduction in customer base, and decreased value of Pembina's securities.

Pembina's reputation as a reliable and responsible energy services producer with consistent financial performance and long-term financial stability is one of its most valuable assets. Key to effectively building and maintaining Pembina's reputation is fostering a culture that promotes integrity and ethical conduct. Ultimate responsibility for Pembina's reputation lies with the executive team that examines reputational risk and issues as part of all business decisions. Nonetheless, every employee and representative of Pembina has a responsibility to contribute in a positive way to its reputation. This means ensuring ethical practices are followed at all times, interactions with our stakeholders are positive, and compliance with applicable policies, legislation and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance Pembina's reputation.

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 compounds 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.

While Pembina believes its current operations are in compliance with all applicable environmental and safety regulations, there can be no assurance that substantial costs or liabilities will not be incurred. Moreover, it is possible 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 the Corporation's operations, and the discovery of pre-existing environmental liabilities in relation to any of the Corporation's existing or future properties or operations, could result in significant costs and liabilities to the Corporation. In addition, the costs of environmental liabilities in relation to spill sites of which the Corporation is currently aware (see "*Description of Pembina's Business and Operations — Environmental Incidents*") could be greater than the Corporation currently anticipates, and any such differences could be substantial. If the Corporation 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 the Convertible Debentures and the Corporation's other debt obligations could be adversely affected.

While the Corporation 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 Corporation believes it has adequate leak detection systems in place to monitor a significant spill of product, if the Corporation is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available. However, Pembina believes it has adequate leak detection systems in place to detect and monitor a significant spill.

Pembina is committed to protecting the health and safety of employees, contractors and the general public and to sound environmental stewardship. Pembina believes that prevention of incidents and injuries, and protection of the environment, benefits everyone and delivers increased value to Shareholders, customers and employees. Pembina has health, safety and environmental management systems and has established policies, programs and practices for conducting safe and environmentally sound operations. Regular reviews and audits are conducted to assess compliance with legislation and company policy.

Abandonment Costs

The Corporation is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline 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. However, it is not possible to predict abandonment costs since they will be a function of regulatory requirements at the time and the value of the Corporation's assets, including line fill, may then be more or less than abandonment costs. The Corporation may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for dividends to Shareholders and to service obligations under the Convertible Debentures and the Corporation's other debt obligations.

On May 26, 2009 the National Energy Board ("**NEB**") issued its Reasons for Decision RH-2-2008 with respect to the Land Matters Consultation Initiative – Stream 3 which dealt with financial issues of pipeline abandonment for pipelines under the NEB's jurisdiction. The NEB decided in principle to set an ultimate goal to have all companies under its jurisdiction begin setting aside funds for the abandonment of pipelines no later than 5 years from the date of the decision. The NEB recommended an action plan to achieve this ultimate goal that would require pipelines to submit to the NEB preliminary cost estimates and fund collection mechanisms for pipeline abandonment prior to the setting aside of funds. Pembina submitted preliminary cost estimates totalling $8,350,000 to the NEB for its affected segments of pipeline on November 30, 2011 and is working towards a pipeline abandonment fund collection plan to present to the NEB prior to the setting aside of funds. Pembina has approximately 200 km of pipeline under the NEB's jurisdiction.

Reserve Replacement and Throughput

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

Over the long term, the Corporation'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 Corporation has an interest. The global economic events of 2008 and 2009 had a substantial downward effect on the demand for and prices of such products. Although prices rebounded in 2010 and remained strong through 2011, 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. 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 the Corporation's control.

Completion of the Resthaven and Saturn Facilities

The Resthaven Facility and the Saturn Facility are currently under development by the Corporation and the successful completion of these facilities is dependent on a number of factors outside of the Corporation's control. These factors include completion of the construction of the Resthaven Facility and Saturn Facility on schedule, as well as construction costs that may change depending on supply, demand and/or inflation. Under the agreements governing the construction and operation of the Resthaven Facility and the Saturn Facility, the Corporation is obligated to construct the facilities and the Corporation bears the risk for any cost overruns. While the Corporation is not currently aware of any significant cost overruns at the date hereof, any such cost overruns in the future could reduce the Corporation's expected return on the Resthaven Facility and the Saturn Facility and adversely affect the Corporation's results of operations which, in turn, could reduce the level of cash available for dividends to Shareholders. The construction of the Resthaven Facility and the Saturn Facility is subject to regulatory approval. There is no certainty, nor can the Corporation provide any assurance, that regulatory approval will be received on a timely basis or at all. See "— *Additional Financing and Capital Resources*" below.

Expansion of the Peace/Northern NGL System

The Corporation has announced plans to expand throughput capacity on the Peace/Northern NGL System by 55,000 bpd. The successful completion of this expansion is dependent on numerous factors outside of the Corporation's control. These factors include receipt of regulatory approval and reaching long-term commercial arrangements with customers in respect of the expansion, completion of the construction of the expansion on schedule, as well as construction costs that may change depending on supply, demand and/or inflation. Any agreements with customers entered into with respect to the expansion may require that the Corporation bears the risk for any cost overruns and any such cost overruns could reduce the Corporation's expected return on the expansion and adversely affect the Corporation's results of operations which, in turn, could reduce the level of cash available for dividends to Shareholders. There is no certainty, nor can the Corporation provide any assurance, that regulatory approval will be received or that satisfactory commercial arrangements with customers will be reached on a timely basis or at all. See "— *Additional Financing and Capital Resources*" below.

Expansion of the Cutbank Complex

The Corporation has completed construction of the Musreau Deep Cut Facility and start-up occurred on February 15, 2012. The Corporation has contracted approximately 80% of the planned capacity at the facility. Although the Corporation expects to contract the remaining capacity under terms designed to provide Pembina with cash flow certainty, there can be no assurance that the Corporation will be able to enter into such contracts on favourable terms and on a timely basis, or at all. Any failure to enter into such contracts could reduce the Corporation's expected return on the facility and adversely affect the Corporation's results of operations which, in turn, could reduce the level of cash available for dividends to Shareholders.

The Corporation has also announced plans to expand shallow cut gas processing capability at the Musreau Gas Plant. The successful completion of this expansion is dependent on numerous factors outside of the Corporation's control. These factors include receipt of environmental approval, completion of the construction of the expansion on schedule, as well as construction costs that may change depending on supply, demand and/or inflation. The Corporation must bear the risk for any cost overruns. Any such cost overruns could reduce the Corporation's expected return on the expansion and adversely affect the Corporation's results of operations which, in turn, could reduce the level of cash available for dividends to Shareholders. There is no certainty, nor can the Corporation provide any assurance, that environmental approval will be received on a timely basis or at all. See "— *Additional Financing and Capital Resources*" below.

Possible Failure to Realize Anticipated Benefits of Acquisitions

As part of its ongoing strategy, the Corporation has completed acquisitions, such as the acquisition of the terminalling and storage facilities in the Edmonton, Alberta area, and may complete additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of any acquisitions.

Additional Financing and Capital Resources

Future acquisitions, expansions of the Corporation's pipeline systems and midstream operations, other capital expenditures, including the capital expenditures that the Corporation has committed to in respect of the proposed Resthaven Facility, the Saturn Facility and the expansion of the Peace/Northern NGL System, 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 Common Shares or other securities (including debt securities) of the Corporation, and borrowings. Dividends to Shareholders 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 the Corporation, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional Common Shares or other securities or the availability of additional credit facilities, becomes limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of the Corporation 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, will be impaired.

Credit Risk

Pembina is subject to credit risk arising out of its operations. A majority of Pembina's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Credit risk is managed through credit approval and monitoring procedures. The credit worthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other credit enhancement may be requested as security. Pembina attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Pembina to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis. Historically, Pembina has collected its accounts receivable in full.

Debt Service

The Corporation 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 dividends to Shareholders. Variations in interest rates and scheduled principal repayments for which the Corporation may not be able 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 dividends to Shareholders. Certain covenants contained in the agreements with the Corporation's lenders may also limit dividend payments. Although the Corporation 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 the Corporation or that additional funds will be able to be obtained on terms favourable to Pembina or at all.

The holders of the Secured Senior Notes have been provided with security over substantially all of the assets of the Corporation, as well as certain guarantees and subordination agreements. The lenders under the Corporation's unsecured credit facilities and other classes of Senior Notes have also been provided with similar guarantees and subordination agreements. If the Corporation 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 to Shareholders and payments to holders of Convertible Debentures.

The Corporation, on a consolidated basis, is also required to meet certain financial covenants under the credit facilities and the Senior Notes 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.

Credit Ratings

Rating agencies regularly evaluate the Corporation, basing their ratings of its long-term and short-term debt on a number of factors. This includes the Corporation'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 the Corporation's credit ratings will not be downgraded.

The Corporation'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 the Corporation's ability to enter into arrangements with suppliers or counterparties, to engage in certain transactions, and could limit the Corporation's access to private and public credit markets and increase the costs of borrowing under its existing credit facilities. A downgrade could also limit the Corporation's access to debt markets and increase its cost of borrowing.

On January 16, 2012, DBRS placed the "BBB (high)" ratings of the Secured Senior Notes and the Medium Term Notes Under Review with Negative Implications following the announcement of the Arrangement with Provident. As a result, the Corporation's ratings could be downgraded following completion of the Arrangement.

On January 18, 2012, S&P announced that it placed its ratings, including its "BBB+" long-term corporate credit rating, on the Corporation on CreditWatch with negative implications. As a result, the Corporation's ratings could be lowered following completion of the Arrangement.

The occurrence of any of the foregoing could adversely affect the Corporation's ability to execute portions of its business strategy and could have a material adverse effect on its liquidity, results of operations and capital position.

Competition

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

Execution Risk

Pembina's ability to successfully execute the development of its organic growth projects may be influenced by capital constraints, third-party opposition, changes in shipper support over time, delays in or changes to government and regulatory approvals, cost escalations, construction delays, shortage and in-service delays. Pembina's growth plans may strain its resources and may be subject to high cost pressures in the North American energy sector. Early stage project risks include right-of-way procurement, special interest group opposition, Crown consultation, and environmental and regulatory permitting. Cost escalations may impact project economics. Construction delays due to slow delivery of materials, contractor non-performance, weather conditions and shortages may impact project development. Labour shortages and productivity issues may also affect the successful completion of projects.

Pembina has a centralized and clearly defined governance structure and process for all major projects with dedicated resources organized to lead and execute each major project. Capital constraints and cost escalation risks are mitigated through structuring of commercial agreements, typically where shippers retain complete or a share of capital cost excess. Pembina's emphasis on corporate social responsibility promotes generally positive relationships with landowners, aboriginal groups and governments which help to facilitate right-of-way acquisition, permitting and scheduling. Detailed cost tracking and centralized purchasing is used on all major projects to facilitate optimum pricing and service terms. Strategic relationships have been developed with suppliers and contractors. Compensation programs, communications and the working environment are aligned to attract, develop and retain qualified personnel.

Shipper and Processing Contracts

Throughput on the Corporation's pipelines is or will be governed by transportation contracts or tolling arrangements with various producers of petroleum products. In addition, the Corporation is indirectly a party to numerous gathering and processing contracts of varying durations in respect of the Cutbank Complex. Any default by counterparties under such contracts or any expirations of such contracts or tolling arrangements without renewal or replacement may have an adverse effect on the Corporation's business. Furthermore, the contracts associated with the Cutbank Complex are comprised of a mixture of firm and interruptible service contracts and the revenue that the Corporation earns on the contracts which are based on interruptible service is dependent on the volume of natural gas and NGL produced by producers in the relevant geographic areas and lower than historical production volumes in these areas (for reasons such as low commodity prices) may have an adverse effect on the revenue the Corporation receives from the Cutbank Complex. See "*Description of Pembina's Business and Operations — Overview — Oil Sands & Heavy Oil*", "*Description of Pembina's Business and Operations — Overview — Conventional Pipelines*", "*Description of Pembina's Business — Contractual Arrangements*" and "*Description of Pembina's Business and Operations — Industry Regulations and Tariffs*".

Structural Integrity of the Storage Facility

The operation of the Storage Facility is subject to risks related to the nature of the salt caverns that are currently used to store ethylene. Three of the five ethylene storage caverns in the Storage Facility are currently out of service and it is unlikely those caverns will be put back into ethylene storage service. The joint owners of this facility are examining alternative capacity options for ethylene storage available elsewhere on the jointly owned property. At this stage, the Corporation does not expect to see a material reduction in revenue as a result, and it is anticipated that an additional cavern will be washed. If arrangements with respect to alternative uses and additional ethylene storage capacity are not entered into on terms favourable to Pembina, or if other disruptions to the operations of the caverns occur and reduce the storage capacity of the Storage Facility for an extended period of time, this would result in a reduction in the revenue received by Pembina from its ownership interest in the Storage Facility and could potentially decrease cash flow available for dividends to Shareholders and to service obligations under the Convertible Debentures and Pembina's other debt obligations. In addition, the Storage LP may be required to make capital expenditures to ameliorate any such storage disruptions in excess of the obligations of Dow Canada and NOVA Chemicals to contribute to capital expenses under the Storage Agreement which could also result in a reduction in the revenue received by Pembina from its ownership interest in the Storage Facility.

Reliance on Facilities Connected to the Storage Facility; Force Majeure

The Storage Facility is connected to the sources and end users of ethylene by facilities including NOVA Chemicals' ethylene delivery system and the Cochin Pipeline. The operations of the Storage Facility are closely integrated with the operations of the ethylene delivery system. Any major disruption affecting these related facilities as a result of mechanical problems or damage would make it considerably more difficult to transport ethylene to and from the Storage Facility. Although the terms of the Storage Agreement require the Storage Facility's customers to pay for the storage of ethylene whether capacity is used or not, Dow Canada and NOVA Chemicals are entitled to make reduced payments under the Storage Agreement if the Storage Facility is not able to inject or withdraw ethylene at specified minimum rates. The effect on the business of the Storage LP of a major disruption to these input/output facilities are difficult to predict. A major disruption or shutdown of these facilities may make the continued operation of the Storage Facility infeasible or uneconomic over the long term.

Reliance on Dow Canada and NOVA Chemicals

Dow Canada and NOVA Chemicals are the principal customers of the Storage LP. Further, Dow Canada performs important functions for the Storage LP under an operating agreement and a facilities agreement, and NOVA Chemicals is the owner and operator of the ethylene delivery system, whose operations are essential to the operations of the Storage Facility. If, for any reason, either of Dow Canada or NOVA Chemicals were not able to perform its obligations under the Storage Agreement or the other agreements with the Storage LP to which they are a party, the revenue and profits of the Storage LP and the Corporation and the ability of the Storage LP to operate the Storage Facility could be negatively affected. This, in turn, could decrease cash flow available for dividends to Shareholders and to service obligations under the Convertible Debentures and the Corporation's other debt obligations. The Corporation attempts to partially mitigate any potential losses in this respect through the use of business interruption insurance.

Regulations Affecting the Storage Facility

The maintenance, operation and eventual abandonment of the Storage Facility is subject to compliance with all regulatory and environmental requirements applicable to it, in particular, those enforced or overseen by the ERCB and Alberta Environment. Currently, the statutory requirement for the frequency of review and certification of the caverns by the ERCB is once every eight years. However, Dow Canada, as the operator of the Storage Facility has voluntarily submitted each cavern for the review and certification process of the ERCB once every five years. The Corporation believes that the current maintenance and operation of the Storage Facility is in compliance with all currently applicable regulatory requirements, including all environmental laws and regulations. However, increasingly stringent regulatory requirements in the future could result in significant costs, obligations or liabilities with respect to the maintenance and operation of the Storage Facility in the future. Existing laws and regulations may be revised or new laws and regulations may be enacted which could have a negative effect on the business of the Storage LP and the results of operations of the Storage LP. In addition, the Storage Facility may become subject to regulations imposed by additional or new regulatory agencies.

In addition to the negative effect of potential new regulations on the Storage Facility directly, the Storage LP could be negatively affected by regulations that curtail the operations of NOVA Chemicals' ethylene delivery system or other facilities connected to the Storage Facility. If the Storage Facility is not able to receive ethylene because of a shutdown of the ethylene delivery system resulting from regulatory action, such event would affect the ability of the Storage Facility to operate.

Competition to the Storage Facility

The Storage Facility is currently the sole large-scale underground facility for the storage of ethylene in Alberta. Given the importance of ethylene storage to the petrochemical industry in Alberta, competition with the Storage Facility may arise, either from the development of new ethylene storage facilities in Alberta or by the conversion of existing hydrocarbon or natural gas storage caverns to ethylene storage. New storage facilities may be developed either through the mining of underground storage caverns in existing salt deposits or through the construction of above-ground storage facilities. It takes approximately three to five years to develop a new storage cavern and in order for a new underground cavern to be competitive with the Storage Facility, it would be necessary to link the cavern to new or existing ethylene or ethylene derivative support infrastructure. While an underground storage cavern that is currently used for NGL could be converted into an ethylene storage facility within a few months, a link to existing petrochemical support infrastructure is required. The development of a competing ethylene storage facility could have a negative effect on the revenue and profitability of the Storage LP over the long term.

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 the Corporation or its Shareholders or other securityholders.

Reliance on Management

Shareholders and other securityholders of the Corporation will be dependent on senior management and directors of the Corporation in respect of the governance, administration and management of all matters relating to the Corporation and its operations and administration. The loss of the services of key individuals could have a detrimental effect on the Corporation.

Potential Conflicts of Interest

Shareholders are dependent upon senior management of the Corporation and the directors of the Corporation for the governance, administration and management of the Corporation. Additionally, certain directors and officers of the Corporation may be directors or officers of entities in competition to the Corporation. As such, these directors or officers of the Corporation may encounter conflicts of interest in the administration of their duties with respect to the Corporation.

Risks Relating to the Arrangement

Termination of the Arrangement Agreement

The Arrangement Agreement may be terminated by the Corporation or Provident in certain circumstances. Accordingly, there is no certainty, nor can the Corporation provide any assurance, that the Arrangement Agreement will not be terminated by either the Corporation or Provident before the completion of the Arrangement. Failure to complete the Arrangement could materially negatively impact the price of the Common Shares.

Conditions Precedent and Requirement for Regulatory, Shareholder and Court Approvals

There can be no certainty that all conditions precedent to the Arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver. The completion of the Arrangement is subject to a number of conditions precedent, some of which are outside of the control of the Corporation and Provident, including the approval of the Shareholders and the Provident shareholders, receipt of regulatory approvals, including competition approval, and receipt of approval from the Court. There is no certainty, nor can the Corporation provide any assurance, that these conditions will be satisfied. If for any reason the Arrangement is not completed, the market price of the Common Shares may be adversely affected. In addition, the requirement to take certain actions or to agree to certain conditions to satisfy the conditions precedent to the Arrangement or to obtain any required regulatory approvals may have a material adverse effect on the business and affairs of Pembina or the trading price of the Common Shares, after completion of the Arrangement.

Failure to Realize the Anticipated Benefits of the Arrangement

The Corporation has entered into the Arrangement Agreement to realize certain benefits. Achieving the benefits of the Arrangement depends in part on the ability of the combined entity to effectively capitalize on its scale, scope and leadership position in the energy infrastructure industry, to realize the anticipated capital and operating synergies, to profitably sequence the growth prospects of its asset base and to maximize the potential of its improved growth opportunities and capital funding opportunities as a result of combining the businesses and operations of Pembina and Provident. A variety of factors may adversely affect the ability to achieve the anticipated benefits of the Arrangement.

Risks Related to the Integration of the Corporation's and Provident's Businesses

The ability to realize the benefits of the Arrangement will depend in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as on the Corporation's ability to realize the anticipated growth opportunities and synergies from integrating its business with that of Provident following completion of the Arrangement. This integration will require the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities following completion of the Arrangement, and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the ability of the Corporation to achieve the anticipated benefits of the Arrangement.

DIVIDENDS AND DISTRIBUTIONS

Cash Distributions

The following table sets forth the amount of monthly cash distributions historically paid by the Fund per Trust Unit since January 2005 up until the completion of the Corporate Conversion on October 1, 2010.

Cash Distribution Per Trust Unit

	Cash Distribution Per Trust Unit					
Month of Payment Date	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
January	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
February	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
March	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
April	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
May	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
June	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
July	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
August	$0.13	$0.13	$0.12	$0.11	$0.095	$0.0875
September	$0.13	$0.13	$0.13	$0.12	$0.100	$0.0875
October(1)	$0.13	$0.13	$0.13	$0.12	$0.100	$0.0875
November	-	$0.13	$0.13	$0.12	$0.100	$0.0875
December	-	$0.13	$0.13	$0.12	$0.100	$0.0875
Total	$1.30	$1.56	$1.48	$1.36	$1.165	$1.0500

Note:

(1) On September 10, 2010, the Fund announced a cash distribution to holders of Trust Units of 13 cents per Trust Unit, which was paid by the Corporation after completion of the Corporate Conversion on October 15, 2010 to holders of Trust Units of record on September 25, 2010.

Cash Dividends

Following completion of the Corporate Conversion, the Corporation began paying monthly dividends to Shareholders, and the initial monthly dividend of $0.13 per Common Share was paid on November 15, 2010 to Shareholders of record on October 25, 2010. The following table sets forth the amount of monthly cash dividends paid by the Corporation in 2010, 2011 and 2012.

Cash Dividends Per Common Shares

	Cash Dividend Per Common Share		
Month of Payment Date	**2012**	**2011**	**2010**
January	$0.13	$0.13	-
February	$0.13	$0.13	-
March	$0.13	$0.13	-
April	-	$0.13	-
May	-	$0.13	-
June	-	$0.13	-
July	-	$0.13	-
August	-	$0.13	-
September	-	$0.13	-
October	-	$0.13	-
November	-	$0.13	$0.13
December	-	$0.13	$0.13
Total	$0.39	$1.56	$0.26

On March 12, 2012 Pembina announced that the Board of Directors of the Corporation had declared a dividend of $0.13 per Common Share to be paid, subject to applicable law, on April 13, 2012 to holders of Common Shares of record on March 25, 2012.

The Corporation expects to increase its monthly dividend rate from $0.13 per Common Share per month to $0.135 per Common Share per month, representing a 3.8% increase, pending successful closing of the Arrangement.

The declaration and payment of any dividend by Pembina is at the discretion of the Board of Directors of Pembina and will depend on numerous factors, including compliance with applicable laws and the financial performance, debt obligations, working capital requirements and future capital requirements of the Corporation and its subsidiaries. See "*Risk Factors*".

The agreements governing the Corporation's credit facilities provide that if an event of default has occurred under the credit facilities, the indebtedness may be accelerated by the lenders, and the ability to pay dividends to Shareholders thereupon ceases. The Corporation is restricted from making distributions (including the declaration of dividends) if it is in default under its credit facilities (or a default would be expected to occur as a result of such distribution) or if its borrowings exceed its borrowing base threshold.

MARKET FOR SECURITIES

The following table sets forth the price range for and trading volume of the Common Shares on the TSX for 2011, as reported by the TSX.

Month	High ($)	Low ($)	Close ($)	Volume (000s)
January	22.45	21.34	22.18	5,690,578
February	22.64	21.58	22.06	5,479,672
March	22.98	20.94	22.94	6,611,122
April	23.25	22.33	23.05	3,354,616
May	24.93	22.91	24.51	3,238,528
June	25.49	23.80	25.39	3,950,307
July	25.89	24.70	25.24	2,933,154
August	26.69	20.64	25.49	7,356,974
September	25.77	24.00	25.65	4,499,625
October	27.31	23.55	27.13	4,469,287
November	30.05	26.60	29.75	19,565,731
December	31.15	29.03	29.66	8,425,191

The outstanding Convertible Debentures of the Corporation are listed and posted for trading on the TSX under the symbol "PPL.DB.C". The following table sets forth certain trading information for the Convertible Debentures on the TSX for 2011, as reported by the TSX.

Month	High ($)	Low ($)	Close ($)	Volume
January	103.25	100.50	103.00	63,310
February	103.50	101.60	102.50	42,550
March	103.50	101.50	102.75	46,610
April	104.00	102.25	102.50	17,145
May	104.00	102.25	103.50	29,150
June	106.25	101.51	103.50	30,170
July	105.98	103.00	105.00	41,690
August	106.50	102.50	104.50	49,860
September	105.47	102.61	102.95	36,070
October	106.73	102.25	105.50	24,730
November	109.40	105.15	106.28	93,630
December	111.92	106.80	109.00	122,750

Additionally, in July 2002, the Corporation issued, on a private placement basis, $100 million in Secured Senior Notes due 2017; in June 2004, the Corporation issued, on a private placement basis, $175 million in Unsecured Senior Notes due 2014; in September 2006, the Corporation issued, on a private placement basis, $200 million in Series C Senior Notes due 2021 and in November 2009, the Corporation issued, on a private placement basis, $267 million in Series D Senior Notes due 2019. On March 29, 2011, the Corporation issued and sold $250 million aggregate principal amount of Medium Term Notes pursuant to a pricing supplement under its Base Shelf Prospectus as supplemented by a prospectus supplement thereto dated March 16, 2011. The Senior Notes and the Medium Term Notes are not publicly traded. See Note 13 to the Corporation's audited consolidated financial statements for the year ended December 31, 2011 for additional information regarding the Senior Notes and the Medium Term Notes.

DIRECTORS AND OFFICERS

Directors of the Corporation

The following table sets out the name and residence for each director of the Corporation as of the date of this Annual Information Form, the date on which they were appointed as a director of the Corporation (or as a trustee of the Fund prior to an internal reorganization in which the directors of the Corporation replaced a board of trustees of the Fund as the entity responsible for the governance of the Fund) and their principal occupations during the past five years.

Name and Residence	Date Appointed	Principal Occupation During the Past Five Years
Thomas W. Buchanan(2)(3) Calgary, Alberta, Canada	August 5, 2010	Chairman and Chief Executive Officer of Charger Energy Corporation (a private oil and natural gas exploration, development and production company) since October 2010, prior thereto, Chief Executive Officer of Provident Energy Trust (a diversified energy company that owns and manages an oil and gas exploration, development and production business and a natural gas liquids infrastructure and logistics business) since March 2001 (with the title of President added in 2007).
Allan L. Edgeworth(2)(4) Calgary, Alberta, Canada	July 1, 2006	President of ALE Energy Inc. (a private consulting company) since 2005. Formerly President and Chief Executive Office of Alliance Pipeline Ltd., from 2001 to 2004.

Randall J. Findlay(3)(5) Calgary, Alberta, Canada	March 8, 2007	Corporate director. Formerly President of Provident Energy Trust from 2001 to 2007.
Lorne B. Gordon(1)(4)(5) Calgary, Alberta, Canada	October 24, 1997	Independent businessman. Formerly Vice Chairman of Coril Holdings Ltd. (a private investment and holding company) from 2004 to 2006 and Chief Executive Officer of Coril Holdings Ltd. from 1997 to 2004.
Myron F. Kanik(2)(3) Qualicum Beach, British Columbia, Canada	October 24, 1997	Independent businessman.
David M.B. LeGresley(3)(4) Toronto, Ontario, Canada	August 16, 2010	Independent businessman since September 2008, prior thereto, Vice Chairman of National Bank Financial from 2006 to 2008 and Executive Vice President and Head of Corporate and Investment Banking of National Bank Financial from 1999 to 2006.
Robert B. Michaleski Calgary, Alberta, Canada	January 4, 2000	Chief Executive Officer of the Corporation since February 15, 2012; prior thereto, President and Chief Executive Officer of the Corporation.
Leslie A. O'Donoghue(4)(5) Calgary, Alberta, Canada	December 17, 2008	Executive Vice President, Operations of Agrium Inc. (a retail supplier of agricultural products and services and a producer and marketer of agricultural nutrients and industrial products) since April 30, 2011; prior thereto, Chief Legal Officer and Senior Vice President, Business Development of Agrium Inc.
Robert F. Taylor(2)(5) Edmonton, Alberta, Canada	October 24, 1997	Independent businessman.

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

Shareholders elect the directors of the Corporation at each annual meeting of the Corporation's Shareholders. The directors of the Corporation serve until the next annual meeting of the Corporation's Shareholders or until their successors are duly elected or appointed. All of the Corporation Directors are "independent" within the meaning of National Instrument 58–101 – *Disclosure of Corporate Governance Practices*, adopted by the Canadian Securities Administrators, with the exception of Mr. Michaleski, who is the Chief Executive Officer of the Corporation.

The Board of Directors of the Corporation has four committees, being the Audit Committee, the Health, Safety and Environment Committee, the Human Resources and Compensation Committee and the Governance Committee, each of which are made up of independent directors with no relationship to management. Additional information regarding the responsibilities of these committees will be contained in the Corporation's information circular for its annual meeting of Shareholders to be held on May 22, 2012.

Executive Officers of the Corporation

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

Name and Residence	Office with the Corporation	Principal Occupation During the Past Five Years
Robert B. Michaleski Calgary, Alberta, Canada	Chief Executive Officer	Chief Executive Officer of the Corporation since February 15, 2012; prior thereto, President and Chief Executive Officer of the Corporation.
Michael H. Dilger Calgary, Alberta, Canada	President and Chief Operating Officer	Vice President, Chief Operating Officer of the Corporation from November 2008 to February 15, 2012; prior thereto, Vice President, Business Development of the Corporation since March 2005.
Peter D. Robertson Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Corporation.
D. James Watkinson, Q.C. Calgary, Alberta, Canada	Vice President, Legal	Vice President, General Counsel and Secretary of the Corporation.
Robert M. Jones Calgary, Alberta, Canada	Vice President, Midstream & Marketing	Vice President, Midstream & Marketing of the Corporation since November 2008; prior thereto, President of Merchant Energy Holdings Corp. since 2002, which provided consulting services to producers and infrastructure companies, including the Corporation from 2005 to 2008.
Stuart V. Taylor Calgary, Alberta, Canada	Vice President, Gas Services	Vice President, Gas Services of the Corporation since July 1, 2009; prior thereto, Manager, Planning of Talisman Energy Inc. since November 2003.
Paul J. Murphy Calgary, Alberta, Canada	Vice President, Conventional Pipelines	Vice President, Conventional of the Corporation since February 14, 2011; prior thereto, Vice President, NGL Extraction of Inter Pipeline Fund since July 2004.

As at March 22, 2012, the directors and executive officers of the Corporation beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 1,419,860 Common Shares, representing approximately 0.84% of the then outstanding Common Shares.

Conflict of Interest

The directors and executive officers named above may be directors or officers of entities which are in competition to the Corporation. As such, these directors or officers of the Corporation may encounter conflicts of interest in the administration of their duties with respect to the Corporation. See "*Risk Factors – Risks Inherent in Pembina's Business – Potential Conflicts of Interest*".

AUDIT COMMITTEE INFORMATION

The Audit Committee's Charter

The Audit Committee Charter is set forth in Appendix "A" to this Annual Information Form.

Composition of the Audit Committee

The Corporation's Audit Committee is comprised of Thomas W. Buchanan, as Chairman, Robert F. Taylor, Allan L. Edgeworth and Myron F. Kanik, each of whom is independent and financially literate within the meaning of National Instrument 52–110 – *Audit Committees* of the Canadian Securities Administrators. Upon closing of the Arrangement, Mr. Buchanan will no longer be considered independent. At this time, the Audit Committee will be reconstituted and Mr. Buchanan will be removed as a member of the Audit Committee. Set forth below are additional details regarding each member of the Audit Committee.

Thomas W. Buchanan

Thomas W. Buchanan is the Chairman of the Audit Committee and has been a member of the Audit Committee since August 5, 2010. Mr. Buchanan is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Buchanan is the former President and Chief Executive Officer of Provident Energy Trust, a position he held from March 2001 until April 2010. Prior to joining Provident, Mr. Buchanan was the President and Chief Executive Officer of Founders Energy Ltd. Additionally, Mr. Buchanan was the Chief Financial Officer of Bankeno Resources from 1988 to 1991 and prior to that, held various financial management positions with Canadian-based firms. Mr. Buchanan graduated from the University of Calgary with a Bachelor of Commerce in 1980, completed his chartered accountant designation in 1981, and in 2010, was appointed a Fellow of the Canadian Institute of Chartered Accountants. This academic and business experience provides Mr. Buchanan with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Robert F. Taylor

Robert F. Taylor has been a member of the Audit Committee since July 26, 2006 and is a former Chairman of the Audit Committee. Mr. Taylor is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Taylor was a director of Shell Canada Limited and President of Shell Canada Products Ltd. prior to his retirement in 1996. He became Executive Vice President of Shell Canada Resources in 1991, following three years with Shell International Petroleum Company in London, England. He is currently a Director of McTay Holdings Limited, a private land development company. He is actively involved in the governance of The Duke of Edinburgh Commonwealth Study Conferences. This experience, coupled with his designation as a Chartered Accountant, received in 1965, provide Mr. Taylor with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Allan L. Edgeworth

Allan L. Edgeworth has been a member of the Audit Committee since August 5, 2010, and prior to that was a member of the Audit Committee from July 1, 2006 to February 4, 2009. Mr. Edgeworth is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Allan Edgeworth is currently the President of ALE Energy Inc. (a private consulting company), a position he has held since 2005. He has held a number of positions at the senior executive level, with the most recent being the President and CEO of Alliance Pipeline Ltd. (the general partner of Alliance Pipeline Limited Partnership) from 2001 to 2004. He holds a Bachelor of Applied Science in Geological Engineering and is a graduate of the Queen's Executive Program. This business experience, coupled with his prior experience on the Audit Committee, provides Mr. Edgeworth with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Myron F. Kanik

Myron F. Kanik has been a member of the Audit Committee since August 2, 2011. Mr. Kanik is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Kanik has been an independent businessman since his retirement as the President of the Canadian Energy Pipeline Association, a position he held from September 1993 to 1999. Prior to that, Mr. Kanik was with the Alberta Department of Energy from 1974 to 1993 where he served in various capacities, including Deputy Minister. Mr. Kanik is a graduate in economics and mathematics from the University of Saskatchewan. Mr. Kanik is a Director of AltaGas Income Trust and serves on the Calgary Region Health Board. Mr. Kanik is actively engaged in the governance of several not-for-profit organizations. This academic and business experience provide Mr. Kanik with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

External Auditor Service Fees

The following table sets out the fees paid to the external auditor in each of the last two financial years for services provided to Pembina:

YEAR	AUDIT FEES(1)	AUDIT-RELATED FEES(2)	TAX FEES(3)	ALL OTHER FEES(4)
2011	$634,077	$16,830	$88,052	NIL
2010	$542,863	$131,200	$175,298	$36,750

Notes:

(1) Audit fees were for professional services rendered by KPMG LLP for the audit of the Corporation's annual financial statements and reviews of the Corporation's quarterly financial statements, as well as services provided in connection with statutory and regulatory filings or engagements and additional fees incurred for audit services rendered in connection with the implementation of IFRS. In 2011, fees included additional expense for the Corporation's prospectus supplement in connection with the offering of the Medium Term Notes and associated French translation. In 2010, fees included additional expenses for the Corporation's base shelf prospectus.

(2) Audit-related fees are for assurance and related services reasonably related to the performance of the audit or review of the Corporation's financial statements and not reported under "*Audit Fees*" above. 2011 included audit fees for the pension plan audit. 2010 included audit fees for the pension plan audit and other professional services rendered in connection with the implementation of IFRS that were not included in "*Audit Fees*".

(3) Tax fees were for tax compliance, tax advice and tax planning. The fees were for services performed by the Corporation's auditors' tax division except those tax services related to the audit. 2011 included general tax consultation in connection with the implementation of IFRS and tax compliance fees incurred for preparing and filing the tax returns for the Corporation's subsidiaries. In 2010, tax returns for the Corporation's subsidiaries were also prepared and filed by KPMG LLP and additional expenses were incurred due to the Corporate Conversion in 2010.

(4) All other fees are fees for products and services provided by the Corporation's auditors other than those described as "*Audit Fees*", "*Audit-related Fees*" and "*Tax Fees*". In 2010, these fees related to services rendered to assist with enterprise risk management.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the directors and executive officers of the Corporation, none of the directors or executive officers of the Corporation, and no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Common Shares, and no associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any material transaction with Pembina since January 1, 2009 or in any proposed transaction that would materially affect Pembina, except as set forth below. With the exception of Robert M. Jones, Stuart V. Taylor, and Paul J. Murphy, each of the executive officers of the Corporation (including Robert B. Michaleski, who is also a director of the Corporation) were, prior to the Management Internalization, also shareholders, directors and officers of the Manager and each of the executive officers of the Corporation that was a shareholder of the Manager prior to the Management Internalization received payments from the Corporation for their shares of the Manager pursuant to the Management Internalization. The final payment made to such executive officers in respect of the Management Internalization was made in March of 2009. See "*General Developments of Pembina – Management Internalization*".

MATERIAL CONTRACTS

Set out below are the contracts material to the Corporation and its subsidiaries that are currently in effect, other than contracts entered into in the ordinary course of business:

1. the Arrangement Agreement (see "*General Developments of Pembina – Developments in 2011 and Year to Date 2012 – Other Matters – Announcement of Acquisition of Provident Energy Ltd.*").

Copies of the above contracts are filed on the Corporation's profile on the SEDAR website www.sedar.com.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the Common Shares, the Convertible Debentures and the Medium Term Notes is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta, Canada and Toronto, Ontario, Canada.

INTERESTS OF EXPERTS

The auditors of the Corporation are KPMG LLP, Chartered Accountants, Calgary, Alberta, Canada. KPMG LLP has confirmed that is independent in accordance with the relevant rules and related interpretation prescribed by the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on the Corporation's company profile on the SEDAR website at www.sedar.com and on Pembina's website at www.pembina.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in the Corporation's information circular for its 2011 annual meeting which has been filed on SEDAR. Furthermore, additional financial information relating to the Corporation is provided in the Corporation's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2011, which have also been filed on SEDAR.

APPENDIX "A"

AUDIT COMMITTEE CHARTER

The Audit Committee is a committee of the Board of Directors (the "**Board**") of Pembina Pipeline Corporation (the "**Corporation**") to which the Board has delegated certain responsibilities relating to the integrity of financial reporting, oversight of the external auditors, and the performance of internal accounting procedures, for the Corporation and entities controlled by the Corporation (collectively, "**Pembina**"). The Audit Committee also prepares reports, if and when required, for inclusion in Pembina's disclosure documents.

The objectives of the Audit Committee are:

(a) to assist the Board in fulfilling its oversight responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements and related matters;

(b) to enhance the external auditor's independence;

(c) to increase the transparency, credibility and objectivity of financial reporting; and

(d) to enhance communication between management, the external auditors, and the Board.

Membership and Policies

The Board will appoint members of the Audit Committee. The Audit Committee must be composed of not less than three (3) members of the Board, each of whom must be independent (as that term is defined in an audit committee context by applicable securities laws). The Board will fill any vacancy in the event the Audit Committee has less than three (3) members and may remove members by resolution.

Each member of the Audit Committee must be financially literate. An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by the financial statements.

The Board Chair will select the Chair of the Audit Committee from amongst its members.

The Audit Committee has the authority to select, engage and remunerate independent counsel and other advisers to assist in carrying out its duties, as deemed necessary. Pembina will provide appropriate funding to compensate the external auditor and any advisors that the Audit Committee chooses to engage.

In discharging its duties under this Charter, the Audit Committee may investigate any matter brought to its attention and will have access to all books, records, facilities and personnel, may conduct meetings or interview any officer or employee, the Corporation's legal counsel, external auditors and consultants, and may invite any such persons to attend any part of any meeting of the Audit Committee.

The Audit Committee has neither the duty nor the responsibility to conduct audit, accounting or legal reviews, or to ensure that the Corporation's financial statements are complete, accurate and in accordance with generally accepted accounting principles ("**GAAP**") and International Financial Reporting Standards ("**IFRS**"); rather, management is responsible for the financial reporting process, internal review process, and the preparation of the Corporation's financial statements in accordance with GAAP and IFRS, and the Corporation's external auditors are responsible for auditing those financial statements.

Functions

External Auditor

The Audit Committee is directly responsible for the appointment, termination, compensation, retention and oversight of the work of the external auditing firm employed by the Corporation (including resolution of disputes between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee's selection of the external auditor is subject to approval by the holders of the Corporation's shares ("**Shareholders**").

The external auditor will report directly to the Audit Committee.

The Audit Committee must pre-approve all auditing services and permitted non-audit services provided by the external auditor, and will consider whether the provision of any non-audit services is compatible with the auditor's independence.

The Audit Committee will evaluate, at least annually, the auditor's qualifications, performance and independence. The Audit Committee will present its conclusions with respect to the external auditor to the Board.

Employees or former employees of the external auditor may not be hired by the Corporation without the prior approval of the Audit Committee.

Oversight of Financial Statements and Internal Controls and Procedures

The Audit Committee will meet with management and the external auditor to discuss annual and quarterly financial statements and management's discussion and analyses and earnings press releases. The Audit Committee will review and discuss the financial information to be included in public disclosure documents and determine whether to recommend to the Board that the financial statements be presented to the Board and to the Shareholders.

At each meeting, the Audit Committee will meet in-camera, without management or external auditors present, and will meet in a separate session with the lead partner of the external auditor.

The Audit Committee will review with the Chief Financial Officer (the "**CFO**") and the external auditor any changes in accounting policies as well as any other significant financial reporting issues.

The Audit Committee will review with the external auditors:

(a) plans, staffing and scope for each annual audit;

(b) the results of the annual audit and resulting opinion including major issues regarding accounting and auditing principles and practices;

(c) the adequacy of internal controls; and

(d) audit problems or difficulties and management's responses in respect of disagreements and to facilitate the resolution of such disagreements and restrictions on the scope of access to information.

The Audit Committee will review with the Chief Executive Officer (the "**CEO**") and the CFO the Corporation's disclosure controls and procedures and at least annually will review management's conclusions about the efficacy of disclosure controls and procedures, including any significant deficiencies or material non-compliance with disclosure controls and procedures.

The Audit Committee will establish a Whistleblower Policy, including procedures for:

(a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

(b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Audit Committee will review with management and the external auditor any material correspondence with regulators or government agencies and any employee complaints or published reports which raise issues regarding the Corporation's financial statements or accounting policies.

The Audit Committee will meet periodically with the appropriate legal advisors to review material legal issues, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Additional Duties and Responsibilities

The Audit Committee will also:

(a) review the appointments of the CFO and any other key financial executives who are involved in the financial reporting process;

(b) review and reassess the adequacy of this Charter annually and submit any proposed changes to the Governance Committee for approval;

(c) review Pembina's asset retirement obligations and receive reports related to future abandonment and decommissioning costs;

(d) facilitate information sharing with other committees as required to address matters of mutual interest or concern in respect of the Corporation's financial reporting;

(e) report regularly to the Board on its activities, including the results of meetings and reviews undertaken, and any associated recommendations;

(f) receive and review reports from the Corporate Pension Committee at Pembina and to recommend or approve changes as appropriate with respect to risk management of pension assets and liabilities, actuarial valuation as required by statute, the Statement of Investment Policies and Procedures, funding policy and corporate performance for the pension plans; and

(g) jointly with the Human Resources and Compensation Committee, report on the status of the pension plans to the Board at least annually.

The Audit Committee will perform such other functions as are assigned by law and the Corporation's by-laws, and on the instructions of the Board.

Meetings

The Audit Committee will meet quarterly, or more frequently at the discretion of the members of the Audit Committee, as circumstances require.

Notice of each meeting of the Audit Committee will be given to each member and to the external auditor, who is entitled to attend each meeting of the Audit Committee. The notice will:

(a) be in writing (which may be communicated by fax or email);

(b) be accompanied by an agenda that states the nature of the business to be transacted at the meeting in reasonable detail;

(c) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and

(d) be given at least 48 hours preceding the time stipulated for the meeting, unless notice is waived by the committee members.

A quorum for a meeting of the Audit Committee is a majority of the members present in person or by telephone.

If the Chair is not present at a meeting of the Audit Committee, a Chair will be selected from among the members present. The Chair will not have a second or deciding vote in the event of an equality of votes.

The Audit Committee may invite others to attend any part of any meeting of the Audit Committee as it deems appropriate. This includes other directors, members of management, any employee, the Corporation's legal counsel, external auditors and consultants.

Minutes will be kept of all meetings of the Audit Committee. The minutes will include copies of all resolutions passed at each meeting, will be maintained with the Corporation's records, and will be available for review by members of the Audit Committee, the Board, and the external auditor.