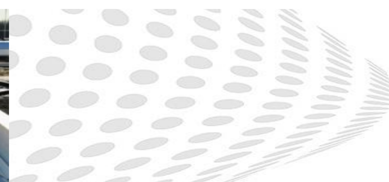
PEMBINA PIPELINE CORPORATION

2014 ANNUAL REPORT



Pembina maintains secure financial position and delivers record year in 2014

Project execution is tracking on time and on budget; new capital projects and additional secured Phase III pipeline expansion volumes support future growth

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

Financial Overview

($ millions, except where noted)	**3 Months Ended December 31** (unaudited)		**12 Months Ended December 31**	
	2014	2013	**2014**	2013
Revenue	**1,259**	1,282	**6,069**	5,006
Net revenue[(1)]	**304**	379	**1,469**	1,306
Operating margin[(1)]	**195**	275	**1,078**	949
Gross profit	**144**	235	**876**	793
Earnings	**84**	95	**383**	351
Earnings per common share – basic *(dollars)*	**0.22**	0.29	**1.07**	1.12
Earnings per common share – diluted *(dollars)*	**0.22**	0.29	**1.06**	1.12
EBITDA[(1) (2)]	**170**	235	**920**	832
Cash flow from operating activities	**196**	208	**800**	685
Cash flow from operating activities per common share – basic *(dollars)*[(1)]	**0.58**	0.66	**2.45**	2.23
Adjusted cash flow from operating activities[(1)]	**164**	185	**777**	725
Adjusted cash flow from operating activities per common share – basic *(dollars)*[(1)]	**0.49**	0.59	**2.38**	2.36
Common share dividends declared	**146**	132	**563**	507
Preferred share dividends declared	**10**	5	**31**	5
Dividends per common share *(dollars)*	**0.44**	0.42	**1.72**	1.65
Capital expenditures	**483**	275	**1,412**	880

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

(2) Includes inventory write-down for the three and twelve months ended December 31, 2014 of $38 million and other expenses as discussed below.

2014 Highlights

"I'm very happy to report that 2014 was another record year for Pembina and the most successful year in the history of our Company," said Mick Dilger, Pembina's President and Chief Executive Officer. "Driven by strong operational performance, we achieved record operating margin, which increased nearly 14 percent over 2013. We also reached an all-time high for cash flow from operating activities, which grew almost 17 percent and 10 percent

on a per share basis in 2014 compared to 2013 as well as for EBITDA, which increased by almost 11 percent over the prior year."

"Another 2014 achievement that I'm particularly proud of is our safety record. Pembina had a full year of zero lost time injuries and zero recordable employee injuries, despite employees having worked 24 percent more hours than in 2013," added Mick. "This is an extraordinary accomplishment and evidence of our commitment to achieving safe, reliable and responsible operations – an effort that is clearly paying off."

Other highlights from 2014 included: continuing to progress Pembina's $5.8 billion of committed capital growth projects while keeping the overall portfolio tracking on time and on budget; placing almost $900 million of new assets into service; completing the Vantage acquisition and subsequently securing an expansion in February 2015; signing new contracts to support additions to the Company's Phase III Expansion plans; announcing approximately $1.4 billion of new projects and locking in future growth; raising $1.1 billion in new financings; and increasing the common share dividend.

"Our Phase III Expansion, which is slated to be in-service between late-2016 and mid-2017, continued to receive support from customers throughout the year," commented Mick. "This is a positive indication of the ongoing confidence in the oil and gas reserves in western Canada, despite challenging markets near the end of 2014 and into early 2015. Since September 2014, we've secured an additional 75,000 barrels per day under long-term, fee-for-service agreements and total committed volume is now 362,000 barrels per day, or 86 percent of the initial 420,000 barrel per day capacity."

"As I've said, this was the most successful year in our history," stated Mick. "We continue to do the important things right – operating safely and reliably, de-risking our business, securing additional Phase III volumes, and positioning ourselves to generate long-term shareholder value. Doing the important things right will continue to be our focus as we progress through 2015. Pembina has been proactively working to grow the fee-for-service business to minimize future impacts of commodity prices on its financial results. With our $5.8 billion of committed projects, we should see operating margin underpinned by fee-for-service agreements grow from approximately 65 percent in 2014 to in excess of 80 percent in 2018. Our objective is to continue our strategy of pursuing low-risk, contracted projects and to outgrow the component of our overall business that is directly tied to commodity prices."

Mick concluded: "There is no disputing the decline in commodity prices took a toll on our fourth quarter results. However, I'm confident that this will not interfere with our medium-term goal of essentially doubling our EBITDA by 2018, which in the end will reward our loyal shareholders. We plan to stay the course, do what's required, and achieve this outcome."

2014 Financial Review

Revenue in 2014 was $6.1 billion compared to $5 billion in 2013 while net revenue for 2014 was $1.5 billion compared to $1.3 billion during 2013. The increase in net revenue was largely due to the Company's Conventional Pipelines and Gas Services businesses which generated increases in net revenue of almost 25 percent and 36 percent, respectively, during 2014 compared to the prior year. Strong performance in each of these businesses was driven by new assets and facilities being placed into service as well as increased volumes on legacy assets.

Revenue for the fourth quarter of 2014 was $1.3 billion, essentially unchanged from the fourth quarter of 2013. Net revenue decreased by 20 percent in the fourth quarter of 2014 to $304 million from $379 million during the same period of 2013. This decrease was primarily due to the decline in commodity prices, which resulted in lower price differentials and an inventory write-down of $38 million in the Company's Midstream business. Partially

offsetting net revenue was the Company's Conventional Pipelines business, which generated an increase of approximately 32 percent in net revenue in the fourth quarter of 2014 compared to the same period of 2013 due to contributions from the Phase I crude oil, condensate and natural gas liquids pipeline capacity expansions which were completed in December 2013 (the "Phase I Expansions"). In addition, start-up at the new Resthaven Facility and strong performance at the Company's Saturn I Facility helped drive an increase of over 39 percent in Gas Services' net revenue in the fourth quarter of 2014 compared to the same period of 2013.

Operating expenses were $401 million for the full-year in 2014 and $117 million during the fourth quarter compared to $356 million and $101 million during the same periods of 2013. The increase in operating expenses for the year and fourth quarter ended December 31, 2014 was primarily the result of new in-service assets, offset by a reduction in operating expenses in the Company's Midstream business resulting from Pembina's disposition of certain of its non-core trucking-related assets recognized in the second quarter of 2014.

During 2014, operating margin increased almost 14 percent to $1.1 billion compared to $949 million for the full-year of 2013. The year-over-year increase was primarily because of strong performance in the Company's Conventional Pipelines and Gas Services businesses, as well as the Midstream business in the first nine months of the year. Operating margin totalled $195 million during the fourth quarter of 2014, down from $275 million in the same period last year. This decrease was largely related to the Midstream business, which was impacted by weak commodity prices during the last several months of 2014, as discussed above.

Depreciation and amortization included in operations during 2014 was $216 million compared to $163 million for the full-year of 2013. This increase was partially due to depreciation and amortization of $40 million stemming from the growth in Pembina's asset base since 2013. This includes the acquisition of the Vantage pipeline system (the "Vantage Pipeline") which increased the Company's asset base by seven percent and contributed $4 million in depreciation expense since the closing of the acquisition (discussed below). In addition, Pembina recognized $13 million in accelerated depreciation associated with the Company's non-core trucking-related assets in the second quarter of 2014, as well as a reduced recovery recognized in 2014 compared to 2013 with respect to the re-measurement of the decommissioning provision due to changes in discount rates. In the fourth quarter of 2014, depreciation and amortization included in operations rose to $62 million compared to $42 million during the same period in 2013 as a result of the same factors which impacted the full-year results noted above.

Gross profit for 2014 was $876 million compared to $793 million for 2013. This 10 percent year-over-year increase was driven by strong operating performance in 2014, as previously mentioned. In the fourth quarter of 2014, decreased operating margin coupled with increased depreciation and amortization included in operations contributed to gross profit of $144 million, a 39 percent reduction compared to $235 million in the same period in 2013.

For the year ended December 31, 2014, Pembina incurred general and administrative expenses (excluding corporate depreciation and amortization) of $156 million compared to $132 million during 2013. The increase was largely due to higher salaries, benefits, incentives and rental expenses related to the addition of new employees and consultants to support Pembina's growth. General and administrative expenses (excluding corporate depreciation and amortization) were $28 million in the fourth quarter of 2014 compared to $43 million in the same period of 2013. This decrease was primarily due to lower share-based payment expenses which were partially offset by an increase in salaries, benefits and rental expenses. The decrease in share-based payment expense in the fourth quarter of 2014 is correlated with the Company's share price, which decreased during that period compared to an increase in the Company's share price in the fourth quarter of 2013. Every $1 change in share price is expected to change Pembina's annual share-based incentive expense by approximately $1 million.

Pembina generated EBITDA of $920 million in 2014 ($976 million prior to an inventory write-down and other expenses, as discussed below), 11 percent higher than EBITDA of $832 million in 2013. The increase in EBITDA was due to higher operating margin, partially offset by an inventory write-down of $38 million (2013: nil) in the Company's Midstream business recorded in the fourth quarter of the year and other expenses of $18 million (2013: $1 million). Other expenses increased year-over-year primarily due to a net impairment for non-recoverable costs associated with the Cornerstone pipeline project (which did not proceed), arbitration settlement costs and acquisition-related expenses for the Vantage Pipeline. EBITDA was $170 million during the fourth quarter of 2014, down from $235 million during the fourth quarter of 2013 due to decreased operating margin, which was partially offset by reduced general and administrative and other expenses. EBITDA for the fourth quarter of 2014 before the $38 million inventory write-down was $208 million.

Full-year net finance costs in 2014 totalled $130 million, down from $166 million in 2013. Net finance costs were lower in 2014 primarily due to a $30 million decrease in the loss on the revaluation of the conversion feature of the series E and F convertible debentures resulting from fewer debentures outstanding and lower prices for these securities. A $9 million decrease in interest expense on the convertible debentures as a result of conversions during the year and foreign exchange gains and other of $3 million also contributed to lower net finance costs. These changes were partially offset by an increase of $8 million in the loss on fair value of non-commodity-related derivative financial instruments and increased interest expense of $2 million on loans and borrowings, reflecting increased borrowing levels, net of capitalized borrowing costs.

Income tax expense for 2014 totalled $167 million, including current tax of $103 million and deferred tax of $64 million, compared to income tax expense of $143 million in 2013, including current tax of $38 million and deferred tax of $105 million. The current tax rose in 2014 primarily as a result of taxable income exceeding losses and deductions available for carry-over in certain of Pembina subsidiary corporations. Income tax expense was $39 million for the fourth quarter of 2014, including current tax of $28 million and deferred tax of $11 million, compared to $41 million, including current tax of $19 million and deferred tax of $22 million in the same period of 2013 for the same reasons noted above.

The Company's earnings increased to $383 million in 2014 compared to $351 million in 2013. This was largely due to higher gross profit in the Conventional Pipelines, Gas Services and Midstream businesses and lower finance costs, which were offset by increased general and administrative expenses, other expenses, share of loss from equity accounted investees and income tax expense. Despite increased earnings, earnings per share decreased from $1.12 per common share in 2013 to $1.07 per common share in 2014, largely because of the increased weighted average number of common shares outstanding due to shares issued in the following ways: upon conversion of convertible debentures; under the dividend reinvestment component of Pembina's Premium Dividend™ and Dividend Reinvestment Plan; and in association with the Vantage Pipeline acquisition. Also offsetting the increase in earnings was the Company's share of loss from equity accounted investees, which included accelerated depreciation of $25 million for certain out-of-service assets at Pembina's Fort Saskatchewan ethylene storage facility which was recorded in the third quarter of 2014. The Company's earnings decreased to $84 million ($0.22 per common share) during the fourth quarter of 2014 compared to $95 million ($0.29 per common share) during the fourth quarter of 2013 largely due to reduced gross profit in the Company's Midstream business, higher taxes and depreciation and amortization included in operations in 2014.

Cash flow from operating activities for the year ended December 31, 2014 was $800 million ($2.45 per common share) compared to $685 million ($2.23 per common share) during 2013. The increase was mainly due to higher earnings as well as a decreased change in non-cash working capital in 2014 compared to 2013 and partially offset

by increased taxes paid. Cash flow from operating activities was $196 million ($0.58 per common share) during the fourth quarter of 2014 compared to $208 million ($0.66 per common share) for the same period last year, with the decrease primarily due to lower fourth quarter earnings in 2014.

Adjusted cash flow from operating activities in 2014 was $777 million ($2.38 per common share) compared to $725 million ($2.36 per common share) during 2013. The increase was largely related to higher operating margin offset by increased current taxes, share-based payment expenses and preferred share dividends declared and paid. Adjusted cash flow from operating activities for the fourth quarter of 2014 was $164 million ($0.49 per common share) compared to $185 million ($0.59 per common share) during the fourth quarter of 2013. This decrease was primarily due to lower operating margin, increased current taxes and preferred share dividends declared and paid.

Operating Results

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
(mbpd, except where noted)[1]	**2014**	2013	**2014**	2013
Conventional Pipelines throughput	**612**	500	**575**	492
Oil Sands & Heavy Oil contracted capacity	**880**	880	**880**	880
Gas Services average volume processed *(mboe/d)* net to Pembina[2]	**97**	66	**86**	53
Midstream NGL sales volume[3]	**130**	122	**119**	109
Total volume	**1,719**	1,568	**1,660**	1,534

(1) mbpd is thousands of barrels per day.

(2) Gas Services average volume processed converted to mboe/d (thousands of barrels of oil equivalent per day) from million cubic feet per day ("MMcf/d") at 6:1 ratio.

(3) NGL is natural gas liquids.

	3 Months Ended December 31 (unaudited)				**12 Months Ended December 31**			
	2014		2013		**2014**		2013	
($ millions)	**Net Revenue**[1]	**Operating Margin**[1]	Net Revenue[1]	Operating Margin[1]	**Net Revenue**[1]	**Operating Margin**[1]	Net Revenue[1]	Operating Margin[1]
Conventional Pipelines	**146**	**74**	111	59	**513**	**302**	411	251
Oil Sands & Heavy Oil	**52**	**34**	53	34	**204**	**136**	195	131
Gas Services	**46**	**29**	33	21	**165**	**107**	121	78
Midstream	**61**	**57**	183	161	**587**	**528**	580	486
Corporate	**(1)**	**1**	(1)			**5**	(1)	3
Total	**304**	**195**	379	275	**1,469**	**1,078**	1,306	949

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

- For the twelve and three months ended December 31, 2014, financial and operating results in the Conventional Pipelines business were higher than the comparable periods of 2013 primarily due to the Phase I Expansions being placed into service at the end of 2013, which allowed for increased volumes on the Company's Peace and Northern pipeline systems. Fourth quarter results in 2014 were also positively impacted by volumes on the Vantage Pipeline, which are recorded in this business.
- In the Oil Sands & Heavy Oil business, increases in net revenue and operating margin during the year ended December 31, 2014 compared to 2013 were primarily related to higher interruptible volumes on the Nipisi Pipeline. Additional flow through operating expenses further increased net revenue in the first and third quarters of 2014. Net revenue and operating margin remained consistent during the fourth quarter of 2014 as compared to the same period of 2013.

- Gas Services' financial and operating results were higher in both the full-year and fourth quarter of 2014 compared to the commensurate periods of the prior year primarily due to the addition of the Saturn I Facility, which was placed into service in late October 2013, and improved operational performance at the Company's Cutbank Complex. The Resthaven Facility, which was placed into service in October 2014, also contributed to the higher fourth quarter results.
- In the Midstream business, full-year net revenue and operating margin of $587 million and $528 million respectively, improved over the $580 million and $486 million realized in 2013. Higher net revenue and operating margin in 2014 was primarily because of increased storage opportunities in the first half of the year along with higher throughput volumes, wider margins, stronger NGL and propane pricing early in the year (predominantly in Empress East), offset by reduced commodity prices in the fourth quarter. Pembina generated net revenue of $61 million during the fourth quarter of 2014, down from $183 million during the fourth quarter of 2013. Operating margin in the fourth quarter of 2014 in this business was $57 million compared to $161 million during the same period of the prior year. These decreases were mainly due to the decline in commodity prices, particularly the weaker price for propane in the fourth quarter of 2014 compared to the same period in 2013, which resulted in Pembina recognizing an inventory write-down of $38 million. Pembina's average realized sales price for propane declined approximately 30 percent in the fourth quarter of 2014 compared to the same period of 2013. Lower price differentials combined with lower crude oil midstream storage revenue also negatively impacted fourth quarter net revenue and operating margin in 2014.

Acquisition of the Vantage Pipeline and Vantage Pipeline Expansion

On October 24, 2014, Pembina acquired the Vantage Pipeline and Mistral Midstream Inc.'s ("Mistral") interest in the Saskatchewan Ethane Extraction Plant ("SEEP") for total consideration of $733 million (U.S.$653 million). To enact the purchase, Pembina acquired all of the issued and outstanding equity interests of Vantage Pipeline Canada ULC, Vantage Pipeline US LP and Mistral. Consideration for the transaction consisted of cash of $217 million (U.S.$193 million), the issuance of 5,610,317 common shares of the Company valued at $266 million (U.S.$237 million), and repayment of Vantage's bank indebtedness of $250 million (U.S.$223 million) at closing (the "Vantage Acquisition"). The fair value of the common shares issued was based on the Toronto Stock Exchange listed share price on the closing date of the acquisition.

The Vantage Pipeline is a recently constructed high vapour pressure pipeline that is approximately 700 kilometres ("km") long with a capacity of approximately 40 mbpd. The pipeline originates in Tioga, North Dakota and terminates near Empress, Alberta and it provides long-term, fee-for-service cash flow and access to the North Dakota Bakken play for future NGL opportunities. The Vantage Pipeline forms part of Pembina's Conventional Pipelines business.

As part of the Vantage Acquisition, Pembina also acquired pipeline infrastructure from Mistral and Mistral's interest in SEEP, a 60 MMcf/d deep cut gas processing facility that is currently under construction and is centrally located to service the southeast Saskatchewan Bakken region. SEEP, which is underpinned by both a long-term ethane sales agreement and a long-term, fee-for-service processing agreement, is expected to produce approximately 4.5 mbpd of ethane and will connect into the Vantage Pipeline through a pipeline lateral. Pembina expects SEEP and the associated pipeline lateral to be in-service in mid-2015. SEEP and the associated pipeline lateral form part of Pembina's Gas Services business.

Subsequent to the Vantage Acquisition and year end, on February 10, 2015, the Company announced that it has entered into agreements to expand the Vantage pipeline system (the "Vantage Expansion") for an estimated capital cost of $85 million.

The Vantage Expansion entails increasing the Vantage Pipeline's mainline capacity from 40 mbpd to 68 mbpd through the addition of mainline pump stations and the construction of a new 80 km, 8-inch gathering lateral. The Vantage Expansion is supported by a long-term, fee-for-service agreement, with a substantial take-or-pay component, and the gathering lateral is underpinned by a fixed return on invested capital agreement. Subject to regulatory and environmental approvals, the Vantage Expansion is expected to be in-service in early-2016.

New Developments in 2014 and Growth Project Update

2014 was a particularly successful year for Pembina in terms of securing customer support for announced projects, acquiring assets to expand the Company's operations into new areas and progressing longer-term growth opportunities. The Company remained focused on expanding its integrated service offerings and proactively growing its fee-for-service asset base.

Conventional Pipelines

As announced in September 2014, Pembina is increasing the size of its Phase III Pipeline Expansion program (the "Phase III Expansion") due to strong customer demand throughout the year. Pembina now plans to construct two pipelines between Fox Creek and Namao, Alberta (one 16-inch diameter and one 24-inch diameter) with an initial combined capacity of 420 mbpd and an ultimate capacity of over 690 mbpd with the addition of midpoint pump stations. Another segment was also added to the project between Wapiti and Kakwa, Alberta. These additions are expected to increase capital spending for the mainline project from $2 billion to $2.44 billion. Subject to regulatory and environmental approvals, Pembina expects the 16-inch and 24-inch diameter pipelines to be in-service between late-2016 and mid-2017. Pembina submitted its regulatory application for both pipelines from Fox Creek to Namao on September 2, 2014.

The Phase III Expansion continued to receive positive customer support through the latter part of 2014, with new contracts being signed for volumes. Pembina announced on September 10, 2014 that it had commitments for 289 mbpd and by September 25, 2014, the Company announced that it had secured additional agreements, bringing total volume under contract to 307 mbpd. Since then, Pembina has received further commitments for an additional 55 mbpd, despite challenging markets near the end of the year. Total committed volume is now 362 mbpd, or 86 percent of the initial 420 mbpd capacity.

Pembina placed its previously announced pipeline expansion between Simonette and Fox Creek into service on August 6, 2014. With this expansion, Pembina expects to be able to deliver an initial 40 mbpd into its Peace Pipeline from Fox Creek into Edmonton once the crude oil and condensate Phase II Expansion, discussed below, is complete. The 35 km segment from Lator to Simonette is also complete and came into service in January 2015 and construction is progressing on the 35 km segment from Kakwa to Lator, with an anticipated April 2015 in-service date. To date, over 10 percent of the overall Phase III Expansion program has been completed on time and on budget.

Also during 2014, Pembina was successful in its commercial efforts to secure the majority of its existing crude and condensate volumes under long-term, firm-service contracts. In aggregate, Pembina has now contracted 690 mbpd of crude oil, condensate and NGL through its recontracting efforts and through its Phase I, II and III conventional pipeline expansions. Once the Phase III Expansion is brought into service, virtually all of the throughput on Pembina's Peace and Northern systems will be under long-term, fee-for-service contracts.

With the completion of the Phase III Expansion, the Company will have four pipelines in the corridor between Fox Creek and Namao which will allow for operational efficiencies and improved quality management of product on its systems.

Work continued on the Phase II crude oil, condensate and NGL expansions ("Phase II Expansions") over the fourth quarter of 2014. Pembina expects the crude oil and condensate portion of the project to be mechanically complete in April 2015 and commissioned in the second quarter of 2015. Pembina has now received all regulatory and environmental approvals for the NGL portion of the pipeline and expects this component of the project to be in-service in the third quarter of 2015. Overall, the Phase II Expansions are continuing to track on-budget.

The Company is also continuing to progress its previously announced plans to expand its presence in the Edson and Willesden Green areas of Alberta. Pembina expects the Willesden Green pipeline lateral to be in-service in mid-2015 and, subject to regulatory and environmental approvals, its pipeline laterals in the Edson area to be in-service mid-2016.

On November 11, 2014, Pembina announced that it has entered into binding agreements to proceed with a $220 million expansion to its pipeline infrastructure in northeast British Columbia ("B.C.") (the "NEBC Expansion"). The NEBC Expansion will transport condensate and NGL for various producers in the liquids-rich Montney resource play.

The project entails the construction of approximately 160 km of up to 12-inch diameter pipeline with a base capacity of up to 75 mbpd that will parallel the Company's Blueberry pipeline system northwest of Taylor, B.C. to the Highway/Blair Creek area of B.C. The project is underpinned by a long-term, cost-of-service agreement with an anchor tenant. Subject to regulatory and environmental approvals, Pembina anticipates bringing the NEBC Expansion on-stream in late-2017.

Gas Services

The Company continued to attract significant support for new gas gathering and processing infrastructure throughout 2014 and successfully progressed its roster of projects within this business.

On October 6, 2014, Pembina placed its 200 MMcf/d (134 MMcf/d net) Resthaven Facility into service and it is now delivering NGL into Pembina's Peace Pipeline.

On October 10, 2014, Pembina announced that it plans to proceed with a $170 million (gross) 100 MMcf/d expansion of the Resthaven Facility and to build, own and operate a new gas gathering pipeline that will deliver gas into the plant (collectively, the "Resthaven Expansion"). The Resthaven Expansion is underpinned by a long-term fee-for-service agreement and Pembina expects the plant expansion to be in-service in mid-2016 and the gathering pipeline to be in-service in mid-2015.

On November 27, 2014, Pembina announced that it plans to construct a new 100 MMcf/d shallow cut facility ("Musreau III") and further expand its gas processing capacity at Musreau for an estimated cost of $105 million. Musreau III, which is underpinned by long-term agreements with several area producers, will be built adjacent to Pembina's existing Musreau I and Musreau II facilities. The new gas plant will leverage the engineering, design and execution strategy from the Company's Musreau I and Musreau II facilities and will use the same pipeline lateral to access Pembina's Peace Pipeline System. Pembina expects Musreau III to have liquids extraction capacity of 3 mbpd, subject to gas compositions. The agreements for Musreau III are take-or-pay in nature and provide flow through of operating expenses. Subject to regulatory and environmental approvals, Pembina anticipates bringing Musreau III on-stream in mid-2016.

In total, once Musreau III is complete, the Cutbank Complex will have 568 MMcf/d of shallow cut processing capacity, net to Pembina, 205 MMcf/d of deep cut processing capacity and will be able to produce roughly 25 mbpd of liquids for transportation on Pembina's Conventional Pipelines.

Pembina has also completed commissioning of its newly constructed 100 MMcf/d shallow cut gas plant, the Musreau II Facility, which came in slightly under budget and was placed into service on December 17, 2014, ahead of its previously anticipated in-service date of the first quarter 2015.

The Company is progressing the construction of the newly-acquired SEEP facility. The project is currently on budget and on schedule for a mid-2015 in-service date with plant site construction approximately 25 percent complete. All regulatory and environmental approvals have been obtained and all engineering, fabrication and construction services have been largely contracted.

Pembina's Saturn II Facility (a 200 MMcf/d 'twin' of the Saturn I Facility) is on schedule and on budget and is expected to be commissioned in the third quarter and placed into service by late-2015. To-date, the Company has completed 36 percent of site construction.

Once the facilities listed above come on-stream, Pembina expects Gas Services' processing capacity to reach 1.5 bcf/d (net to Pembina), including ethane-plus extraction capacity of 870 MMcf/d (net to Pembina). The volumes from Pembina's existing assets and those under development (as discussed above) will be processed largely on a contracted, fee-for-service basis and could result in 70 mbpd of NGL, subject to gas compositions, that would be transported for toll revenue on Pembina's Conventional Pipelines. Volumes from these projects support Pembina's pipeline expansion plans as discussed under "Conventional Pipelines."

Midstream

Pembina continues to progress facility construction of its second 73 mbpd ethane-plus fractionator at the Company's Redwater site ("RFS II"). Over 80 percent of equipment has been set on site and module fabrication is substantially complete. On site construction is currently 65 percent complete. The project is on schedule and anticipated to be on-stream late in the fourth quarter of 2015.

With the addition of RFS III, Pembina's third fractionator at its Redwater site with propane-plus capacity of 55 mbpd, which was announced on May 12, 2014, fractionation capacity will total 210 mbpd, making the Company's Redwater complex the largest fractionation facility in Canada. Detailed engineering work is underway and over 30 percent of long-lead equipment has been ordered, with all critical orders in place. Pembina has now received regulatory approval and has submitted its application for environmental approval, which it anticipates receiving later this year. Subject to obtaining this approval, Pembina expects RFS III to be in-service in the third quarter of 2017. Overall, the project is tracking on schedule and on budget.

As announced on October 9, 2014, Pembina plans to develop the Canadian Diluent Hub ("CDH"), a large-scale condensate and diluent terminal at its Heartland Terminal site near Fort Saskatchewan, Alberta. The proposed facilities are designed to accommodate contracted diluent supply volumes from the Company's previously announced field gas plant, pipeline and NGL fractionator expansions. The Company expects CDH to become a new market hub for condensate and other diluents by offering its customers a variety of value-added services.

Site preparation began in late-2013 and is on-going. Subject to further regulatory and environmental approvals, Pembina anticipates phasing-in incremental pipeline connections to regional condensate delivery systems in 2016 with a view to achieving full connectivity and service offerings at CDH in mid-2017.

On June 16, 2014, Pembina's Midstream business placed a new full-service truck terminal in the Cynthia area of Alberta into service which was operating at full capacity by the end of the year. The Company also continued with the development of storage capacity at its Edmonton North Terminal. During the fourth quarter, Pembina progressed construction at the site with a view to bringing the additional 540,000 barrels of above-ground storage tanks into service in mid-2016.

At its storage and terminalling facilities in Corunna, Ontario, Pembina progressed development of a new brine pond, rail upgrades, and the installation of a new propane truck rack to meet increased demand for services. Pembina also continued throughout the year on its underground hydrocarbon cavern development program at its Redwater facility.

In September, the Company communicated its plans to proceed with developing a 37 mbpd west coast propane export terminal under an agreement with the Port of Portland, Oregon. This agreement sets forth the terminal site, which includes an existing marine berth located within the city of Portland, for the development of the project. Since the announcement, Pembina's dedicated project team is continuing to make progress with community, regulatory and special interest group engagement, and is also advancing detailed engineering design work in advance of a number of permit applications to be submitted throughout 2015. The project is anticipated to be brought into service in early-2018 (subject to obtaining required permits and approvals). The Company expects that the proposed terminal will provide growing Canadian propane supply (that is derived from natural gas produced in western Canada) with access to large, international markets, while complementing Pembina's expanding integrated service offering for products that are derived from natural gas.

Financing Activity

On January 16, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset class A preferred shares, Series 5 ("Series 5 Preferred Shares") at a price of $25.00 per share for aggregate proceeds of $250 million. Dividends on the Series 5 Preferred Shares are $0.3125 quarterly, or $1.25 per share on an annualized basis, payable on the 1st day of March, June, September and December, as and when declared by the Board of Directors of Pembina, for the initial fixed rate period to but excluding June 1, 2019. The Series 5 Preferred Shares began trading on the Toronto Stock Exchange on January 16, 2014 under the symbol PPL.PR.E.

On April 4, 2014, the Company issued $600 million in senior unsecured medium-term notes and subsequently repaid its $75 million senior unsecured term facility on April 7, 2014 and its $175 million senior unsecured notes (Series A) on June 16, 2014.

On September 11, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset class A preferred shares, series 7 ("Series 7 Preferred Shares") at a price of $25.00 per share for aggregate gross proceeds of $250 million. Dividends on the Series 7 Preferred Shares are $0.2813 quarterly, or $1.125 per share on an annualized basis, payable on the 1st day of March, June, September and December, as and when declared by the Board of Directors of Pembina, for the initial fixed rate period to but excluding December 1, 2019. The Series 7 Preferred Shares began trading on the Toronto Stock Exchange on September 11, 2014 under the symbol PPL.PR.G.

Subsequent to year-end 2014, Pembina closed an offering of $600 million of senior unsecured medium-term notes on February 2, 2015. The offering was conducted in two tranches consisting of $450 million in senior unsecured medium-term notes, series 5 having a fixed coupon of 3.54 percent per annum, paid semi-annually, and maturing on February 3, 2025, and $150 million through the re-opening of its 4.75 percent medium-term notes, series 3, due April 30, 2043. Net proceeds were used to reduce short-term indebtedness of the Company under its credit facilities, and will also be used to fund Pembina's capital program and for other general corporate purposes.

Fourth Quarter 2014 Conference Call & Webcast

Pembina will host a conference call on Friday, February 27, 2015 at 8:00 a.m. MT (10:00 a.m. ET) for interested investors, analysts, brokers and media representatives to discuss details related to the full-year and fourth quarter of 2014. The conference call dial-in numbers for Canada and the U.S. are 647-427-7450 or 888-231-8191. A recording of the conference call will be available for replay until March 4, 2015 at 11:59 p.m. ET. To access the replay, please dial either 416-849-0833 or 855-859-2056 and enter the password 41655527.

A live webcast of the conference call can be accessed on Pembina's website at www.pembina.com under Investor Centre, Presentation & Events, or by entering:

http://event.on24.com/r.htm?e=908208&s=1&k=6DBCFDBECA3074FAE21EB2E3398FFCB8 in your web browser. Shortly after the call, an audio archive will be posted on the website for a minimum of 90 days.

2015 Investor Day

Pembina will hold an Investor Day on Tuesday, March 10, 2015 at the One King West Hotel in Toronto, Ontario.

Parties interested in attending the event please email investor-relations@pembina.com to request an invite. A live webcast will begin at 8:30 a.m. ET. To register for the webcast please click the following link or enter the URL into your web browser: http://event.on24.com/r.htm?e=909285&s=1&k=9ADA55600DE489890511AB3328511E0A

The webcast and presentation will be accessible and available for replay through Pembina's website under Investor Centre, Presentations & Events.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial and operating results of Pembina Pipeline Corporation ("Pembina" or the "Company") is dated February 26, 2015 and is supplementary to, and should be read in conjunction with, Pembina's audited consolidated annual financial statements for the years ended December 31, 2014 and 2013 ("Consolidated Financial Statements"). All dollar amounts contained in this MD&A are expressed in Canadian dollars unless otherwise noted.

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

This MD&A contains forward-looking statements (see "Forward-Looking Statements & Information"). This report also refers to net revenue, operating margin, earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted cash flow from operating activities (and cash flow from operating activities per common share and adjusted cash flow from operating activities per common share), and total enterprise value, which are financial measures that are not defined by Generally Accepted Accounting Principles ("GAAP"). Pembina's methods of calculating these financial measures may not be directly comparable to that of other companies. Pembina considers these non-GAAP financial measures to provide useful information to both management and investors in measuring Pembina's financial performance and financial condition. For more information about the measures which are not defined by GAAP, including reconciliation to the most directly comparable GAAP measure, see "Non-GAAP and Additional GAAP Measures."

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

Measurement		Other	
bpd	barrels per day	B.C.	British Columbia
mbpd	thousands of barrels per day	DRIP	Premium Dividend™ and Dividend Reinvestment Plan
mmbbls	millions of barrels	IFRS	International Financial Reporting Standards
mboe/d	thousands of barrels of oil equivalent per day	NGL	Natural gas liquids
MMcf/d	millions of cubic feet per day	U.S.	United States
bcf/d	billions of cubic feet per day	WCSB	Western Canadian Sedimentary Basin
km	kilometre		

About Pembina

Calgary-based Pembina Pipeline Corporation is a leading transportation and midstream service provider that has been serving North America's energy industry for over 60 years. Pembina owns and operates an integrated system of pipelines that transport various hydrocarbon liquids including conventional and synthetic crude oil, heavy oil and oil sands products, condensate (diluent) and NGL produced in western Canada and ethane produced in North Dakota. The Company also owns and operates gas gathering and processing facilities and an oil and NGL infrastructure and logistics business. With facilities strategically located in western Canada and in NGL markets in eastern Canada and the U.S., Pembina also offers a full spectrum of midstream and marketing services that spans across its operations. Pembina's integrated assets and commercial operations enable it to offer services needed by the energy sector along the hydrocarbon value chain.

Pembina is a trusted member of the communities in which it operates and is committed to generating value for its investors by running its businesses in a safe, environmentally responsible manner that is respectful of community stakeholders.

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

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

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

Financial & Operating Overview

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2014**	2013	**2014**	2013
Conventional Pipelines throughput *(mbpd)*	**612**	500	**575**	492
Oil Sands & Heavy Oil contracted capacity *(mbpd)*	**880**	880	**880**	880
Gas Services average volume processed *(mboe/d)* net to Pembina[(1)]	**97**	66	**86**	53
Midstream NGL sales volume *(mbpd)*	**130**	122	**119**	109
Total volume *(mbpd)*	**1,719**	1,568	**1,660**	1,534
Revenue	**1,259**	1,282	**6,069**	5,006
Net revenue[(2)]	**304**	379	**1,469**	1,306
Operating expenses	**117**	101	**401**	356
Realized gain (loss) on commodity-related derivative financial instruments	**8**	(3)	**10**	(1)
Operating margin[(2)]	**195**	275	**1,078**	949
Depreciation and amortization included in operations	**62**	42	**216**	163
Unrealized gain (loss) on commodity-related derivative financial instruments	**11**	2	**14**	7
Gross profit	**144**	235	**876**	793
General and administrative expenses	**28**	43	**156**	132
Other expenses	**2**	1	**18**	1
Net finance costs (income)	**(9)**	55	**130**	166
Share of loss of investment in equity accounted investees, net of tax			**22**	
Current tax expense	**28**	19	**103**	38
Deferred tax expense	**11**	22	**64**	105
Earnings	**84**	95	**383**	351
Earnings per common share – basic *(dollars)*	**0.22**	0.29	**1.07**	1.12
Earnings per common share – diluted *(dollars)*	**0.22**	0.29	**1.06**	1.12
EBITDA[(2)]	**170**	235	**920**	832
Cash flow from operating activities	**196**	208	**800**	685
Cash flow from operating activities per common share – basic *(dollars)*[(2)]	**0.58**	0.66	**2.45**	2.23
Adjusted cash flow from operating activities[(2)]	**164**	185	**777**	725
Adjusted cash flow from operating activities per common share – basic *(dollars)*[(2)]	**0.49**	0.59	**2.38**	2.36
Common share dividends declared	**146**	132	**563**	507
Dividends per common share *(dollars)*	**0.44**	0.42	**1.72**	1.65
Preferred share dividends declared	**10**	5	**31**	5
Capital expenditures	**483**	275	**1,412**	880
Total enterprise value *($ billions)*[(2)]	**18**	15	**18**	15

(1) Gas Services average volume processed converted to mboe/d from MMcf/d at 6:1 ratio.

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

Revenue in 2014 was $6.1 billion compared to $5 billion in 2013 while net revenue for 2014 was $1.5 billion compared to $1.3 billion during 2013. The increase in net revenue was largely due to the Company's Conventional Pipelines and Gas Services businesses which generated increases in net revenue of almost 25 percent and 36 percent, respectively, during 2014 compared to the prior year. Strong performance in each of these businesses was driven by new assets and facilities being placed into service as well as increased volumes on legacy assets.

Revenue for the fourth quarter of 2014 was $1.3 billion, essentially unchanged from the fourth quarter of 2013. Net revenue decreased by 20 percent in the fourth quarter of 2014 to $304 million from $379 million during the same period of 2013. This decrease was primarily due to the decline in commodity prices, which resulted in lower price differentials and an inventory write-down of $38 million in the Company's Midstream business. Partially offsetting net revenue was the Company's Conventional Pipelines business, which generated an increase of

approximately 32 percent in net revenue in the fourth quarter of 2014 compared to the same period of 2013 due to contributions from the Phase I crude oil, condensate and natural gas liquids pipeline capacity expansions which were completed in December 2013 (the "Phase I Expansions"). In addition, start-up at the new Resthaven Facility and strong performance at the Company's Saturn I Facility helped drive an increase of over 39 percent in Gas Services' net revenue in the fourth quarter of 2014 compared to the same period of 2013.

Operating expenses were $401 million for the full-year in 2014 and $117 million during the fourth quarter compared to $356 million and $101 million during the same periods of 2013. The increase in operating expenses for the year and fourth quarter ended December 31, 2014 was primarily the result of new in-service assets, offset by a reduction in operating expenses in the Company's Midstream business resulting from Pembina's disposition of certain of its non-core trucking-related assets recognized in the second quarter of 2014.

During 2014, operating margin increased almost 14 percent to $1.1 billion compared to $949 million for the full-year of 2013. The year-over-year increase was primarily because of strong performance in the Company's Conventional Pipelines and Gas Services businesses, as well as the Midstream business in the first nine months of the year. Operating margin totalled $195 million during the fourth quarter of 2014, down from $275 million in the same period last year. This decrease was largely related to the Midstream business, which was impacted by weak commodity prices during the last several months of 2014, as discussed above.

Depreciation and amortization included in operations during 2014 was $216 million compared to $163 million for the full-year of 2013. This increase was partially due to depreciation and amortization of $40 million stemming from the growth in Pembina's asset base since 2013. This includes the acquisition of the Vantage pipeline system (the "Vantage Pipeline") which increased the Company's asset base by seven percent and contributed $4 million in depreciation expense since the closing of the acquisition (discussed below). In addition, Pembina recognized $13 million in accelerated depreciation associated with the Company's non-core trucking-related assets in the second quarter of 2014, as well as a reduced recovery recognized in 2014 compared to 2013 with respect to the re-measurement of the decommissioning provision due to changes in discount rates. In the fourth quarter of 2014, depreciation and amortization included in operations rose to $62 million compared to $42 million during the same period in 2013 as a result of the same factors which impacted the full-year results noted above.

Gross profit for 2014 was $876 million compared to $793 million for 2013. This 10 percent year-over-year increase was driven by strong operating performance in 2014 as previously mentioned. In the fourth quarter of 2014, decreased operating margin coupled with increased depreciation and amortization included in operations contributed to gross profit of $144 million, a 39 percent reduction compared to $235 million in the same period in 2013.

For the year ended December 31, 2014, Pembina incurred general and administrative expenses (excluding corporate depreciation and amortization) of $156 million compared to $132 million during 2013. The increase was largely due to higher salaries, benefits, incentives and rental expenses related to the addition of new employees and consultants to support Pembina's growth. General and administrative expenses (excluding corporate depreciation and amortization) were $28 million in the fourth quarter of 2014 compared to $43 million in the same period of 2013. This decrease was primarily due to lower share-based payment expenses which were partially offset by an increase in salaries, benefits and rental expenses. The decrease in share-based payment expense in the fourth quarter of 2014 is correlated with the Company's share price, which decreased during that period compared to an increase in the Company's share price in the fourth quarter of 2013. Every $1 change in share price is expected to change Pembina's annual share-based incentive expense by approximately $1 million.

Pembina generated EBITDA of $920 million in 2014 ($976 million prior to an inventory write-down and other expenses, as discussed below), 11 percent higher than EBITDA of $832 million in 2013. The increase in EBITDA was due to higher operating margin, partially offset by an inventory write-down of $38 million (2013: nil) in the Company's Midstream business recorded in the fourth quarter of the year and other expenses of $18 million (2013: $1 million). Other expenses increased year-over-year primarily due to a net impairment for non-recoverable costs associated with the Cornerstone pipeline project (which did not proceed), arbitration settlement costs and acquisition-related expenses for the Vantage Pipeline. EBITDA was $170 million during the fourth quarter of 2014, down from $235 million during the fourth quarter of 2013 due to decreased operating margin, which was partially offset by reduced general and administrative and other expenses. EBITDA for the fourth quarter of 2014 before the $38 million inventory write-down was $208 million.

Full-year net finance costs in 2014 totalled $130 million, down from $166 million in 2013. Net finance costs were lower in 2014 primarily due to a $30 million decrease in the loss on the revaluation of the conversion feature of the series E and F convertible debentures resulting from fewer debentures outstanding and lower prices for these securities. A $9 million decrease in interest expense on the convertible debentures as a result of conversions during the year and foreign exchange gains and other of $3 million also contributed to lower net finance costs. These changes were partially offset by an increase of $8 million in the loss on fair value of non-commodity-related derivative financial instruments and increased interest expense of $2 million on loans and borrowings, reflecting increased borrowing levels, net of capitalized borrowing costs.

Income tax expense for 2014 totalled $167 million, including current tax of $103 million and deferred tax of $64 million, compared to income tax expense of $143 million in 2013, including current tax of $38 million and deferred tax of $105 million. The current tax rose in 2014 primarily as a result of taxable income exceeding losses and deductions available for carry-over in certain of Pembina subsidiary corporations. Income tax expense was $39 million for the fourth quarter of 2014, including current tax of $28 million and deferred tax of $11 million, compared to $41 million, including current tax of $19 million and deferred tax of $22 million in the same period of 2013 for the same reasons noted above.

The Company's earnings increased to $383 million in 2014 compared to $351 million in 2013. This was largely due to higher gross profit in the Conventional Pipelines, Gas Services and Midstream businesses and lower finance costs, which were offset by increased general and administrative expenses, other expenses, share of loss from equity accounted investees and income tax expense. Despite increased earnings, earnings per share decreased from $1.12 per common share in 2013 to $1.07 per common share in 2014, largely because of the increased weighted average number of common shares outstanding due to shares issued in the following ways: upon conversion of convertible debentures; under the dividend reinvestment component of Pembina's Premium Dividend™ and Dividend Reinvestment Plan; and in association with the Vantage Pipeline acquisition. Also offsetting the increase in earnings was the Company's share of loss from equity accounted investees, which included accelerated depreciation of $25 million for certain out-of-service assets at Pembina's Fort Saskatchewan ethylene storage facility which was recorded in the third quarter of 2014. The Company's earnings decreased to $84 million ($0.22 per common share) during the fourth quarter of 2014 compared to $95 million ($0.29 per common share) during the fourth quarter of 2013 largely due to reduced gross profit in the Company's Midstream business, higher taxes and depreciation and amortization included in operations in 2014.

Cash flow from operating activities for the year ended December 31, 2014 was $800 million ($2.45 per common share) compared to $685 million ($2.23 per common share) during 2013. The increase was mainly due to higher earnings as well as a decreased change in non-cash working capital in 2014 compared to 2013 and partially offset

by increased taxes paid. Cash flow from operating activities was $196 million ($0.58 per common share) during the fourth quarter of 2014 compared to $208 million ($0.66 per common share) for the same period last year, with the decrease primarily due to lower fourth quarter earnings in 2014.

Adjusted cash flow from operating activities in 2014 was $777 million ($2.38 per common share) compared to $725 million ($2.36 per common share) during 2013. The increase was largely related to higher operating margin offset by increased current taxes, share-based payment expenses and preferred share dividends declared and paid. Adjusted cash flow from operating activities for the fourth quarter of 2014 was $164 million ($0.49 per common share) compared to $185 million ($0.59 per common share) during the fourth quarter of 2013. This decrease was primarily due to lower operating margin, increased current taxes and preferred share dividends declared and paid.

Operating Results

	3 Months Ended December 31 (unaudited)				12 Months Ended December 31			
	2014		2013		**2014**		2013	
($ millions)	**Net Revenue[1]**	**Operating Margin[1]**	Net Revenue[1]	Operating Margin[1]	**Net Revenue[1]**	**Operating Margin[1]**	Net Revenue[1]	Operating Margin[1]
Conventional Pipelines	**146**	**74**	111	59	**513**	**302**	411	251
Oil Sands & Heavy Oil	**52**	**34**	53	34	**204**	**136**	195	131
Gas Services	**46**	**29**	33	21	**165**	**107**	121	78
Midstream	**61**	**57**	183	161	**587**	**528**	580	486
Corporate	**(1)**	**1**	(1)			**5**	(1)	3
Total	**304**	**195**	379	275	**1,469**	**1,078**	1,306	949

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

Conventional Pipelines

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2014**	2013	**2014**	2013
Average throughput *(mbpd)*	**612**	500	**575**	492
Revenue	**146**	111	**513**	411
Operating expenses	**72**	52	**211**	162
Realized gain on commodity-related derivative financial instruments				2
Operating margin[1]	**74**	59	**302**	251
Depreciation and amortization included in operations	**17**	7	**42**	12
Unrealized (loss) gain on commodity-related derivative financial instruments	**(2)**	(1)		1
Gross profit	**55**	51	**260**	240
Capital expenditures	**232**	126	**628**	325

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

Business Overview

Pembina's Conventional Pipelines business comprises a well-maintained and strategically located 8,800 km pipeline network that transports hydrocarbon products and extends across much of Alberta and parts of B.C. In addition, the recently acquired Vantage Pipeline transports specification ethane from gas plants in North Dakota and Saskatchewan to Empress, Alberta, where it is delivered onto a third-party pipeline. The primary objectives of this business are to provide safe, responsible and reliable transportation services for customers, pursue opportunities for increased throughput, and maintain and/or grow sustainable operating margin on invested

capital by capturing incremental volumes, expanding its pipeline systems, managing revenue and following a disciplined approach to its operating expenses.

Operational Performance

Conventional Pipelines' throughput averaged 575 mbpd for 2014, up 17 percent compared to 492 mbpd for 2013. During the fourth quarter of 2014, throughput averaged a record 612 mbpd. This represents an increase of approximately 22 percent compared to the same period of 2013, when average throughput was 500 mbpd.

These increases were primarily due to Pembina's Phase I Expansions, which were placed into service in December 2013 and which allowed for the receipt of higher volumes at Pembina's existing connections and truck terminals. As a result of the expansions, volumes on Pembina's Peace Pipeline increased almost 69 mbpd or 32 percent over 2014 as compared to 2013. The Company also placed several new connections into service during 2014, which further contributed to increased throughput on its systems. In addition, during the fourth quarter of 2014, Pembina began transporting volumes on the Vantage Pipeline. As a result of these factors, in December of 2014, Pembina reached a record average monthly volume performance of 631 mbpd.

Financial Performance

Conventional Pipelines' revenue in 2014 was $513 million, 25 percent higher compared to $411 million for 2013. During the fourth quarter of 2014, revenue was $146 million, almost 32 percent higher than the $111 million generated in the same quarter of the previous year. The increases during the 2014 periods were primarily due to the Phase I Expansions noted above, strong volumes from existing and new connections, including Pembina's Saturn I and Resthaven facilities and selective toll increases implemented in 2014. The addition of the Vantage Pipeline also had a positive impact on revenue during the fourth quarter.

Operating expenses were $211 million for 2014 compared to $162 million in 2013 and $72 million in the fourth quarter of 2014 compared to $52 million in the same period of the prior year. On a full-year basis, higher operating expenses in 2014 were largely driven by increases in repairs and maintenance, integrity costs, labour, property taxes as well as increased insurance costs related to additional in-service assets. The increase in the fourth quarter of 2014 was partially due to maintenance costs incurred on the Company's Peace and Western systems which were incremental to Pembina's ongoing pipeline maintenance and integrity management program. Further contributing to the increase in operating expenses in the fourth quarter of 2014, as compared to the same period in 2013, were increased labour costs due to additional staff and vehicle units within the Conventional Pipelines business.

As a result of higher revenue, which was partially offset by an increase in operating expenses, operating margin was $302 million for the full-year of 2014 and $74 million for the fourth quarter, 20 percent and 25 percent higher, respectively, than the $251 million and $59 million recorded for the commensurate periods of 2013.

Depreciation and amortization included in operations for the year ended December 31, 2014 was $42 million compared to $12 million for 2013. During the fourth quarter of 2014, depreciation and amortization included in operations was $17 million compared to $7 million during the same period of the prior year. The increase for the full-year and fourth quarter of 2014 resulted from additional in-service assets associated with the Phase I Expansions and the Vantage Pipeline, as well as a reduction in the recovery recognized in 2014 compared to 2013 with respect to the re-measurement of the decommissioning provision due to changes in discount rates.

Gross profit was $260 million and $55 million for the year and three months ended December 31, 2014, respectively, compared to $240 million and $51 million during the same periods of 2013. These increases were due

to higher operating margin, which was partially offset by increased depreciation and amortization included in operations, as discussed above.

Capital expenditures totalled $628 million and $232 million for the full-year and fourth quarter of 2014, respectively, compared to $325 million and $126 million for the same periods of 2013. The majority of the spending in 2014 related to Pembina's pipeline expansion projects which are described throughout this document.

New Developments

As announced in September 2014, Pembina is increasing the size of its Phase III Pipeline Expansion program (the "Phase III Expansion") due to strong customer demand throughout the year. Pembina now plans to construct two pipelines between Fox Creek and Namao, Alberta (one 16-inch diameter and one 24-inch diameter) with an initial combined capacity of 420 mbpd and an ultimate capacity of over 690 mbpd with the addition of midpoint pump stations. Another segment was also added to the project between Wapiti and Kakwa, Alberta. These additions are expected to increase capital spending for the mainline project from $2 billion to $2.44 billion. Subject to regulatory and environmental approvals, Pembina expects the 16-inch and 24-inch diameter pipelines to be in-service between late-2016 and mid-2017. Pembina submitted its regulatory application for both pipelines from Fox Creek to Namao on September 2, 2014.

The Phase III Expansion continued to receive positive customer support through the latter part of 2014, with new contracts being signed for volumes. Pembina announced on September 10, 2014 that it had commitments for 289 mbpd and by September 25, 2014, the Company announced that it had secured additional agreements, bringing total volume under contract to 307 mbpd. Since then, Pembina has received further commitments for an additional 55 mbpd, despite challenging markets near the end of the year. Total committed volume is now 362 mbpd, or 86 percent of the initial 420 mbpd capacity.

Pembina placed its previously announced pipeline expansion between Simonette and Fox Creek into service on August 6, 2014. With this expansion, Pembina expects to be able to deliver an initial 40 mbpd into its Peace Pipeline from Fox Creek into Edmonton once the crude oil and condensate Phase II Expansion, discussed below, is complete. The 35 km segment from Lator to Simonette is also complete and came into service in January 2015 and construction is progressing on the 35 km segment from Kakwa to Lator, with an anticipated April 2015 in-service date. To date, over 10 percent of the overall Phase III Expansion program has been completed on time and on budget.

Also during 2014, Pembina was successful in its commercial efforts to secure the majority of its existing crude and condensate volumes under long-term, firm-service contracts. In aggregate, Pembina has now contracted 690 mbpd of crude oil, condensate and NGL through its recontracting efforts and through its Phase I, II and III conventional pipeline expansions. Once the Phase III Expansion is brought into service, virtually all of the throughput on Pembina's Peace and Northern systems will be under long-term, fee-for-service contracts.

With the completion of the Phase III Expansion, the Company will have four pipelines in the corridor between Fox Creek and Namao which will allow for operational efficiencies and improved quality management of product on its systems.

Work continued on the Phase II crude oil, condensate and NGL expansions ("Phase II Expansions") over the fourth quarter of 2014. Pembina expects the crude oil and condensate portion of the project to be mechanically complete in April 2015 and commissioned in the second quarter of 2015. Pembina has now received all regulatory and environmental approvals for the NGL portion of the pipeline and expects this component of the project to be in-service in the third quarter of 2015. Overall, the Phase II Expansions are continuing to track on budget.

The Company is also continuing to progress its previously announced plans to expand its presence in the Edson and Willesden Green areas of Alberta. Pembina expects the Willesden Green pipeline lateral to be in-service in mid-2015 and, subject to regulatory and environmental approvals, its pipeline laterals in the Edson area to be in-service mid-2016.

On November 11, 2014, Pembina announced that it has entered into binding agreements to proceed with a $220 million expansion to its pipeline infrastructure in northeast British Columbia ("B.C.") (the "NEBC Expansion"). The NEBC Expansion will transport condensate and NGL for various producers in the liquids-rich Montney resource play.

The project entails the construction of approximately 160 km of up to 12-inch diameter pipeline with a base capacity of up to 75 mbpd that will parallel the Company's Blueberry pipeline system northwest of Taylor, B.C. to the Highway/Blair Creek area of B.C. The project is underpinned by a long-term, cost-of-service agreement with an anchor tenant. Subject to regulatory and environmental approvals, Pembina anticipates bringing the NEBC Expansion on-stream in late-2017.

Subsequent to the acquisition of the Vantage pipeline (see "Acquisition of Vantage Pipeline") and year end, on February 10, 2015, the Company announced that it has entered into agreements to expand the Vantage pipeline system (the "Vantage Expansion") for an estimated capital cost of $85 million.

The Vantage Expansion entails increasing the Vantage Pipeline's mainline capacity from 40 mbpd to 68 mbpd through the addition of mainline pump stations and the construction of a new 80 km, 8-inch gathering lateral. The Vantage Expansion is supported by a long-term, fee-for-service agreement, with a substantial take-or-pay component, and the gathering lateral is underpinned by a fixed return on invested capital agreement. Subject to regulatory and environmental approvals, the Vantage Expansion is expected to be in-service in early-2016.

Oil Sands & Heavy Oil

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions, except where noted)	**2014**	2013	**2014**	2013
Contracted capacity *(mbpd)*	**880**	880	**880**	880
Revenue	**52**	53	**204**	195
Operating expenses	**18**	19	**68**	64
Operating margin[1]	**34**	34	**136**	131
Depreciation and amortization included in operations	**4**	2	**17**	17
Gross profit	**30**	32	**119**	114
Capital expenditures	**6**	5	**41**	38

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

Business Overview

Pembina plays an important role in supporting Alberta's oil sands and heavy oil industry. Pembina is the sole transporter of crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Ltd.'s Horizon Oil Sands operation (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Nipisi and Mitsue pipelines, which provide transportation for producers operating in the Pelican Lake and Peace River heavy oil regions of Alberta, and the Cheecham Lateral, which transports synthetic crude to oil sands producers operating southeast of Fort McMurray, Alberta. The Oil Sands & Heavy Oil business operates approximately 1,650 km of pipeline and has 880 mbpd of capacity under long-term, extendible contracts,

which provide for the flow-through of eligible operating expenses to customers. As a result, operating margin from this business is primarily driven by the amount of capital invested and is predominantly not sensitive to fluctuations in operating expenses or actual throughput.

Financial Performance

In 2014, Oil Sands & Heavy Oil revenue was $204 million, an increase from 2013 revenue of $195 million, largely due to higher interruptible volumes on the Nipisi Pipeline and revenue generated by the Nipisi to Trans Mountain Pipeline connection. Higher operating expenses related to scheduled integrity work in the first three quarters of 2014, which were recovered under Pembina's contractual arrangements with its customers, also contributed to the increase in revenue. For the fourth quarter of 2014, revenue was $52 million, essentially unchanged compared to the fourth quarter of last year.

Operating expenses were $68 million for the year ended December 31, 2014, compared to $64 million for 2013. Increased costs related to scheduled integrity work and maintenance were the main contributors to the incremental operating expenses. Operating expenses were $18 million during the fourth quarter of 2014 compared to $19 million for the same period of the prior year.

Operating margin was $136 million and $34 million for the year and three months ended December 31, 2014 compared to $131 million and $34 million, respectively, generated during the same periods of 2013. The 2014 full-year increase was primarily due to greater interruptible volumes on the Nipisi Pipeline and the incremental revenue from the Nipisi to Trans Mountain Pipeline connection as discussed above.

Depreciation and amortization included in operations during the year and fourth quarter ended December 31, 2014 was $17 million and $4 million, compared to $17 million and $2 million, respectively in the commensurate periods of the prior year. The quarterly increase was due to an increase in the useful life on the Nipisi and Mitsue systems during the fourth quarter of 2013.

Gross profit was $119 million and $30 million for the twelve and three months ended December 31, 2014, respectively, compared to $114 million and $32 million during the same periods of 2013. Gross profit increased in 2014 due to the same factors that resulted in higher operating margin. Gross profit decreased slightly during the fourth quarter of 2014 compared to the same quarter of the prior year due to increased depreciation and amortization included in operations, as discussed above.

Full-year capital expenditures within the Oil Sands & Heavy Oil business totalled $41 million in 2014, primarily relating to the Cornerstone pipeline project and pipeline connections. On September 25, 2014, Pembina was informed that Statoil's Cornerstone oil sands project had been deferred for an indeterminate period of time. The engineering support agreement between Pembina and Statoil for the related Cornerstone oil sands pipeline expired, and no additional capital will be spent on the pipeline project. Pembina will retain the right to use the engineering for other commercial discussions and recognized a net impairment of non-recoverable costs of $6 million related to the Cornerstone pipeline project. Of the total expenditures on the Cornerstone project, $25 million has been recovered. The capital expenditures in 2013 totalled $38 million, which primarily related to the construction of additional pump stations on the Nipisi and Mitsue pipelines.

Gas Services

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2014**	2013	**2014**	2013
Average volume processed *(MMcf/d)* net to Pembina[(1)]	**584**	397	**515**	319
Average volume processed *(mboe/d)*[(2)] net to Pembina	**97**	66	**86**	53
Revenue	**46**	33	**165**	121
Operating expenses	**17**	12	**58**	43
Operating margin[(3)]	**29**	21	**107**	78
Depreciation and amortization included in operations	**7**	7	**22**	20
Gross profit	**22**	14	**85**	58
Capital expenditures	**79**	56	**295**	258

(1) Volumes at the Musreau Gas Plant exclude deep cut processing as those volumes are counted when they are processed through the shallow cut portion of the plant.

(2) Average volume processed converted to mboe/d from MMcf/d at a 6:1 ratio.

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

Business Overview

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

- Pembina's Cutbank Complex – located near Grand Prairie, Alberta, this facility includes four shallow cut sweet gas processing plants (the Cutbank Gas Plant, the Musreau Gas Plant, the Musreau II Facility and the Kakwa Gas Plant) and one deep cut gas processing plant (the Musreau Deep Cut Facility). In total, the Cutbank Complex has 525 MMcf/d of processing capacity (468 MMcf/d net to Pembina) and 205 MMcf/d of ethane-plus extraction capacity (net to Pembina). The Cutbank Complex also includes approximately 350 km of gathering pipelines.
- Pembina's Saturn I Facility – located near Hinton, Alberta, this facility includes 200 MMcf/d of ethane-plus extraction capacity as well as approximately 25 km of gathering pipelines.
- Pembina's Resthaven Facility – located near Resthaven, Alberta, this facility includes 200 MMcf/d (134 MMcf/d net to Pembina) of extraction capacity.

These facilities are connected to Pembina's Peace Pipeline System. The Company continues to progress construction and development of numerous other facilities in its Gas Services business to meet the growing needs of producers in west central Alberta and Saskatchewan, as discussed in more detail below.

Operational Performance

Within Pembina's Gas Services business, on a full-year basis, volumes increased more than 61 percent to 515 MMcf/d compared to 319 MMcf/d in 2013. Higher volumes during 2014 were primarily related to the addition of the Saturn I Facility, which was placed into service in late October 2013 and which operated above its nameplate capacity of 200 MMcf/d during a large portion of 2014. Improved operational performance at the Cutbank Complex also contributed to the growth in volumes. Overall, during 2014, Pembina continued to benefit from producer activity in the areas surrounding its assets that is focused on liquids-rich natural gas.

Average volume processed, net to Pembina, was 584 MMcf/d during the fourth quarter of 2014, approximately 47 percent higher than the 397 MMcf/d processed during the fourth quarter of the previous year. Increased volumes were related to a full quarter's contribution from the Saturn I Facility, as well as volumes from the Resthaven Facility, which was placed into service on October 6, 2014 and the Musreau II Facility, which was placed into service on December 17, 2014.

Financial Performance

Gas Services generated revenue of $165 million in 2014 compared to $121 million in 2013. During the fourth quarter of 2014, $46 million in revenue was generated, up from $33 million in the same period of the prior year. These 36 and 39 percent increases, respectively, primarily reflect the new facilities that were placed into service in this business, as discussed above.

Full-year operating expenses totalled $58 million, up from $43 million during the prior year. For the fourth quarter of 2014, Gas Services incurred operating expenses of $17 million compared to $12 million during the fourth quarter of 2013. The full-year and quarterly increases during 2014 were mainly due to additional operating costs associated with the new Saturn I Facility, as well as the Resthaven Facility and Musreau II Facility being placed into service later in the year, and higher operating costs related to the increase in volumes processed at the Cutbank Complex. Pembina also conducted turnarounds at its Cutbank and Musreau gas plants and expensed associated costs during the second and third quarters of 2014, respectively. Expenditures associated with these turnarounds are recovered under Pembina's contractual arrangements with its customers; however, processing revenue and service fees are not earned during outages.

Gas Services realized operating margin of $107 million in 2014 and $29 million in the fourth quarter of 2014 compared to $78 million and $21 million during the same periods of the previous year. On a full-year basis, operating margin increased primarily as a result of strong operating performance and the addition of new assets since the prior period. Increased volumes and revenue during the three months ended December 31, 2014 resulted in improved operating margin over the fourth quarter.

Depreciation and amortization included in operations for the full-year of 2014 totalled $22 million compared to $20 million in 2013, with the increase primarily attributable to the addition of new assets as discussed above. For the fourth quarter of 2014, depreciation and amortization included in operations totalled $7 million, unchanged from the same period of the prior year.

On a full-year basis, gross profit was $85 million in 2014 compared to $58 million during 2013. For the three months ended December 31, 2014, gross profit was $22 million compared to $14 million in the same period of 2013. These increases reflect higher operating margin during the 2014 periods compared to the same periods of 2013, primarily resulting from new assets being placed into service.

For the year ended December 31, 2014, capital expenditures within Gas Services totalled $295 million compared to $258 million during 2013. Capital spending in 2014 was largely to progress the multi-year construction projects at Resthaven, Saturn II, and Musreau II, which are discussed below. In 2013, capital expenditures were primarily related to the Saturn I Facility, Saturn II, Musreau II and Resthaven.

New Developments

The Company continued to attract significant support for new gas gathering and processing infrastructure throughout 2014 and successfully progressed its roster of projects within this business.

On October 6, 2014, Pembina placed its 200 MMcf/d (134 MMcf/d net) Resthaven Facility into service and it is now delivering NGL into Pembina's Peace Pipeline.

On October 10, 2014, Pembina announced that it plans to proceed with a $170 million (gross) 100 MMcf/d expansion of the Resthaven Facility and to build, own and operate a new gas gathering pipeline that will deliver gas into the plant (collectively, the "Resthaven Expansion"). The Resthaven Expansion is underpinned by a long-term fee-for-service agreement and Pembina expects the plant expansion to be in-service in mid-2016 and the gathering pipeline to be in-service in mid-2015.

On November 27, 2014, Pembina announced that it plans to construct a new 100 MMcf/d shallow cut facility ("Musreau III") and further expand its gas processing capacity at Musreau for an estimated cost of $105 million. Musreau III, which is underpinned by long-term agreements with several area producers, will be built adjacent to Pembina's existing Musreau I and Musreau II facilities. The new gas plant will leverage the engineering, design and execution strategy from the Company's Musreau I and Musreau II facilities and will use the same pipeline lateral to access Pembina's Peace Pipeline System. Pembina expects Musreau III to have liquids extraction capacity of 3 mbpd, subject to gas compositions. The agreements for Musreau III are take-or-pay in nature and provide flow through of operating expenses. Subject to regulatory and environmental approvals, Pembina anticipates bringing Musreau III on-stream in mid-2016.

In total, once Musreau III is complete, the Cutbank Complex will have 568 MMcf/d of shallow cut processing capacity, net to Pembina, 205 MMcf/d of deep cut processing capacity and will be able to produce roughly 25 mbpd of liquids for transportation on Pembina's Conventional Pipelines.

Pembina has also completed commissioning of its newly constructed 100 MMcf/d shallow cut gas plant, the Musreau II Facility, which came in slightly under budget and was placed into service on December 17, 2014, ahead of its previously anticipated in-service date of the first quarter 2015.

The Company is progressing the construction of the newly-acquired SEEP facility. The project is currently on budget and on schedule for a mid-2015 in-service date with plant site construction approximately 25 percent complete. All regulatory and environmental approvals have been obtained and all engineering, fabrication and construction services have been largely contracted.

Pembina's Saturn II Facility (a 200 MMcf/d 'twin' of the Saturn I Facility) is on schedule and on budget and is expected to be commissioned in the third quarter and placed into service by late-2015. To-date, the Company has completed 36 percent of site construction.

Once the facilities listed above come on-stream, Pembina expects Gas Services' processing capacity to reach 1.5 bcf/d (net to Pembina), including ethane-plus extraction capacity of 870 MMcf/d (net to Pembina). The volumes from Pembina's existing assets and those under development (as discussed above) will be processed largely on a contracted, fee-for-service basis and could result in 70 mbpd of NGL, subject to gas compositions, that would be transported for toll revenue on Pembina's Conventional Pipelines. Volumes from these projects support Pembina's pipeline expansion plans as discussed under "Conventional Pipelines."

Midstream

	3 Months Ended December 31 [(1)] (unaudited)		12 Months Ended December 31 [(1)]	
($ millions, except where noted)	**2014**	2013	**2014**	2013
NGL sales volume *(mbpd)*	**130**	122	**119**	109
Revenue	**1,052**	1,115	**5,259**	4,346
Cost of goods sold, including product purchases	**991**	932	**4,672**	3,766
Net revenue[(2)]	**61**	183	**587**	580
Operating expenses	**12**	19	**69**	91
Realized gain (loss) on commodity-related derivative financial instruments	**8**	(3)	**10**	(3)
Operating margin[(2)]	**57**	161	**528**	486
Depreciation and amortization included in operations	**34**	26	**135**	114
Unrealized gain on commodity-related derivative financial instruments	**13**	3	**14**	6
Gross profit	**36**	138	**407**	378
Capital expenditures	**135**	87	**390**	254

(1) Share of loss from equity accounted investees not included in these results.
(2) Refer to "Non-GAAP and Additional GAAP Measures."

Business Overview

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

- Crude oil midstream assets include 17 truck terminals (including three capable of emulsion treatment and water disposal) and terminalling at downstream hub locations at the Pembina Nexus Terminal ("PNT"), which features storage, crude-oil-by-rail services and terminal connectivity. PNT includes: 21 inbound pipeline connections; 13 outbound pipeline connections; in excess of 1.2 mmbpd of crude oil and condensate supply connected to the terminal; and 310 mbbls of surface storage in and around the Edmonton and Fort Saskatchewan, Alberta areas.
- NGL midstream includes two NGL operating systems – Redwater West and Empress East.
    - The Redwater West NGL system ("Redwater West") includes the 750 MMcf/d (322.5 MMcf/d net to Pembina) Younger extraction and fractionation facility in B.C.; a 73 mbpd NGL fractionator and 7.9 mmbbls of finished product cavern storage at Redwater, Alberta; and third-party fractionation capacity in Fort Saskatchewan, Alberta. Redwater West purchases NGL mix from various natural gas and NGL producers and fractionates it into finished products for further distribution and sale. Also located at the Redwater site is Pembina's rail-based terminal which services Pembina's proprietary and customer needs for importing and exporting specification NGL and crude oil.
    - The Empress East NGL system ("Empress East") includes 2.3 bcf/d capacity in the straddle plants at Empress, Alberta; 20 mbpd of fractionation capacity and 1.1 mmbbls of cavern storage in Sarnia, Ontario; and 5.1 mmbbls of hydrocarbon storage at Corunna, Ontario. Empress East extracts NGL mix from natural gas at the Empress straddle plants and purchases NGL mix from other producers/suppliers. Ethane and condensate are generally fractionated out of the NGL mix at Empress and sold into Alberta markets. The remaining NGL mix is transported by pipeline to Sarnia, Ontario for further fractionation, distribution and sale.

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

Operational & Financial Performance

In the Midstream business, net revenue was $587 million in 2014 compared to $580 million in 2013. Higher net revenue was primarily due to increased storage opportunities in the first half of 2014 along with higher throughput volumes and wider margins, offset by a challenging fourth quarter, as noted below. Pembina generated net revenue of $61 million during the fourth quarter of 2014, down from $183 million during the fourth quarter of 2013. The decrease was largely due to the significant decline in commodity prices (particularly the weaker quarter-over-quarter propane prices), which resulted in Pembina recording an inventory write-down of $38 million. Lower price differentials across all commodities, combined with lower crude oil midstream storage revenue, also contributed to the decrease in net revenue from the prior period.

Operating expenses during the full-year and fourth quarter of 2014 were $69 million and $12 million, respectively, compared to $91 million and $19 million in the comparable periods of 2013. The decrease during the full-year and fourth quarter was largely due to the Company's sale of its non-core trucking-related subsidiary in the third quarter of 2014.

Operating margin was $528 million during the full-year and $57 million during the fourth quarter of 2014 compared to $486 million and $161 million in the respective periods of 2013. The increase in full-year operating margin was primarily due to stronger NGL pricing early in the year and the factors that positively impacted annual net revenue, discussed above. Lower fourth quarter net revenue in 2014, as previously mentioned, contributed to the decrease in operating margin over the comparable period in 2013.

The Company's crude oil midstream operating margin for the year ended December 31, 2014 totalled $188 million compared to $147 million during the prior year. The higher full-year results were due to increased storage opportunities in the first half of 2014, higher volumes and wider margins offset by lower price differentials and lower storage revenue later in 2014. Crude oil midstream operating margin was $36 million in the fourth quarter of 2014 compared to $47 million in the same period of 2013. This decrease was largely due to the factors which impacted net revenue, particularly low differentials and weaker commodity prices.

For the year ended December 31, 2014, operating margin for NGL midstream was $340 million compared to $339 million during 2013. Despite weak fourth quarter results, NGL midstream contributed strong operating margin for 2014, primarily related to positive market prices for propane, particularly in Empress East, earlier in the year. Operating margin for Pembina's NGL midstream activities was $21 million for the fourth quarter of 2014 compared to $114 million for the fourth quarter of 2013. The rapid decline in market pricing for NGL in general and propane specifically throughout the fourth quarter contributed to this reduction. Pembina's average realized sales price for propane declined approximately 30 percent in the fourth quarter of 2014 compared to the same period of 2013. Further, while NGL sales volumes were seven percent higher during the fourth quarter of 2014 than during the same period of 2013, at 130 mbpd, the low commodity price environment inhibited Pembina's ability to generate revenue on these volumes. Volumes increased primarily due to higher ethane production at Empress East resulting from Pembina's increased ownership share in the Empress Facilities as well as opportunities related to gas extraction.

Full-year depreciation and amortization included in operations for Pembina's Midstream business totalled $135 million, up from $114 million in 2013. This increase reflects the growth in this business' asset base since the prior period. Additionally, in the second quarter of 2014, the Company recognized a $13 million charge for accelerated depreciation associated with the disposal of non-core trucking-related assets. Depreciation and amortization included in operations during the fourth quarter of 2014 totalled $34 million compared to $26 million during the fourth quarter of 2013, with the increase attributable to the same reasons which impacted the full-year.

For the twelve and three months ended December 31, 2014, gross profit in this business was $407 million and $36 million, respectively, compared to $378 million and $138 million during the same periods in 2013 due to the same factors which impacted net revenue, operating expenses, and depreciation and amortization included in operations, as noted above.

For the year ended December 31, 2014, capital expenditures within the Midstream business totalled $390 million compared to $254 million during 2013. Capital spending in this business in 2014 was primarily directed towards the development of Pembina's second fractionator ("RFS II") as well as NGL storage caverns and associated infrastructure. Capital was also deployed to progress the build-out of Pembina's full-service terminal network, including completion of the Cynthia Full-Service Terminal, which commenced service in June 2014 and above-ground storage in the Edmonton area. Capital expenditures in 2013 primarily related to cavern development at the Company's Redwater facility.

New Developments

Pembina continues to progress facility construction of its second 73 mbpd ethane-plus fractionator at the Company's Redwater site ("RFS II"). Over 80 percent of equipment has been set on site and module fabrication is substantially complete. On site construction is currently 65 percent complete. The project is on schedule and anticipated to be on-stream late in the fourth quarter of 2015.

With the addition of RFS III, Pembina's third fractionator at its Redwater site with propane-plus capacity of 55 mbpd, which was announced in May 12, 2014, fractionation capacity will total 210 mbpd, making the Company's Redwater complex the largest fractionation facility in Canada. Detailed engineering work is underway and over 30 percent of long-lead equipment has been ordered, with all critical orders in place. Pembina has now received regulatory approval and has submitted its application for environmental approval, which it anticipates receiving later this year. Subject to obtaining this approval, Pembina expects RFS III to be in-service in the third quarter of 2017. Overall, the project is tracking on schedule and on budget.

As announced on October 9, 2014, Pembina plans to develop the Canadian Diluent Hub ("CDH"), a large-scale condensate and diluent terminal at its Heartland Terminal site near Fort Saskatchewan, Alberta. The proposed facilities are designed to accommodate contracted diluent supply volumes from the Company's previously announced field gas plant, pipeline and NGL fractionator expansions. The Company expects CDH to become a new market hub for condensate and other diluents by offering its customers a variety of value-added services.

Site preparation began in late-2013 and is on-going. Subject to further regulatory and environmental approvals, Pembina anticipates phasing-in incremental pipeline connections to regional condensate delivery systems in 2016 with a view to achieving full connectivity and service offerings at CDH in mid-2017.

On June 16, 2014, Pembina's Midstream business placed a new full-service truck terminal in the Cynthia area of Alberta into service which was operating at full capacity by the end of the year. The Company also continued with the development of storage capacity at its Edmonton North Terminal. During the fourth quarter, Pembina

progressed construction at the site with a view to bringing the additional 540 mbbls of above-ground storage tanks into service in mid-2016.

At its storage and terminalling facilities in Corunna, Ontario, Pembina progressed development of a new brine pond, rail upgrades, and the installation of a new propane truck rack to meet increased demand for services. Pembina also continued throughout the year on its underground hydrocarbon cavern development program at its Redwater facility.

In September, the Company communicated its plans to proceed with developing a 37 mbpd west coast propane export terminal under an agreement with the Port of Portland, Oregon. This agreement sets forth the terminal site, which includes an existing marine berth located within the city of Portland, for the development of the project. Since the announcement, Pembina's dedicated project team is continuing to make progress with community, regulatory and special interest group engagement, and is also advancing detailed engineering design work in advance of a number of permit applications to be submitted throughout 2015. The project is anticipated to be brought into service in early-2018 (subject to obtaining required permits and approvals). The Company expects that the proposed terminal will provide growing Canadian propane supply (that is derived from natural gas produced in western Canada) with access to large, international markets, while complementing Pembina's expanding integrated service offering for products that are derived from natural gas.

Acquisition of Vantage Pipeline

On October 24, 2014, Pembina acquired the Vantage Pipeline and Mistral Midstream Inc.'s ("Mistral") interest in SEEP for total consideration of $733 million (U.S.$653 million). To enact the purchase, Pembina acquired all of the issued and outstanding equity interests of Vantage Pipeline Canada ULC, Vantage Pipeline US LP and Mistral. Consideration for the transaction consisted of cash of $217 million (U.S.$193 million), the issuance of 5,610,317 common shares of the Company valued at $266 million (U.S.$237 million), and repayment of Vantage's bank indebtedness of $250 million (U.S.$223 million) at closing (the "Vantage Acquisition"). The fair value of the common shares issued was based on the TSX listed share price on the date of the Vantage Acquisition.

The Vantage Pipeline is a recently constructed high vapour pressure pipeline that is approximately 700 km long with a capacity of approximately 40 mbpd. The pipeline originates in Tioga, North Dakota and terminates near Empress, Alberta and it provides long-term, fee-for-service cash flow and access to the North Dakota Bakken play for future NGL opportunities. The Vantage Pipeline forms part of Pembina's Conventional Pipelines business.

As part of the Vantage Acquisition, Pembina also acquired pipeline infrastructure from Mistral and Mistral's interest in SEEP, an under construction, 60 MMcf/d deep cut gas processing facility that is centrally located to service the southeast Saskatchewan Bakken region. SEEP, which is underpinned by both a long-term ethane sales agreement and a long-term, fee-for-service processing agreement, is expected to produce approximately 4.5 mbpd of ethane and connects into the Vantage Pipeline through a pipeline lateral. Pembina expects SEEP and the associated pipeline lateral to be in-service in mid-2015. SEEP and the associated pipeline lateral form part of Pembina's Gas Services business.

Subsequent to year end, the Company announced on February 10, 2015 that it has entered into agreements to proceed with Vantage Expansion for an estimated capital cost of $85 million. Subject to regulatory and environmental approvals, the Vantage Expansion is expected to be in-service in early-2016. See "Operating Results – Conventional Pipelines – New Developments" for more information.

Other Non-Operating Expenses

Pension Liability

Pembina maintains a defined contribution plan and non-contributory defined benefit pension plans covering employees and retirees. The defined benefit plans include a funded registered plan for all qualified employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. At the end of 2014, the pension plans carried an obligation of $20 million compared to an obligation of $2 million at the end of 2013. At December 31, 2014, plan obligations amounted to $157 million (2013: $126 million) compared to plan assets of $138 million (2013: $124 million). In 2014, the pension plans' expense was $8 million (2013: $10 million). Contributions to the pension plans totaled $10 million in 2014 and $13 million in 2013.

In 2015, contributions to the pension plans are expected to be $9 million and the pension plans' net expenses are anticipated to be $12 million. Management anticipates an annual increase in compensation of four percent, which is consistent with current industry standards.

Financing Activity

On January 16, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset class A preferred shares, Series 5 ("Series 5 Preferred Shares") at a price of $25.00 per share for aggregate proceeds of $250 million. Dividends on the Series 5 Preferred Shares are $0.3125 quarterly, or $1.25 per share on an annualized basis, payable on the 1st day of March, June, September and December, as and when declared by the Board of Directors of Pembina, for the initial fixed rate period to but excluding June 1, 2019. The Series 5 Preferred Shares began trading on the Toronto Stock Exchange on January 16, 2014 under the symbol PPL.PR.E.

On April 4, 2014, the Company issued $600 million senior unsecured medium-term notes and subsequently repaid the $75 million senior unsecured term facility on April 7, 2014 and the $175 million senior unsecured notes (Series A) on June 16, 2014.

On September 11, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset class A preferred shares, series 7 ("Series 7 Preferred Shares") at a price of $25.00 per share for aggregate gross proceeds of $250 million. Dividends on the Series 7 Preferred Shares are $0.2813 quarterly, or $1.125 per share on an annualized basis, payable on the 1st day of March, June, September and December, as and when declared by the Board of Directors of Pembina, for the initial fixed rate period to but excluding December 1, 2019. The Series 7 Preferred Shares began trading on the Toronto Stock Exchange on September 11, 2014 under the symbol PPL.PR.G.

Subsequent to the year-end, on February 2, 2015, Pembina closed an offering of $600 million of senior unsecured medium-term notes. The offering was conducted in two tranches consisting of $450 million in senior unsecured medium-term notes, series 5 having a fixed coupon of 3.54 percent per annum, paid semi-annually, and maturing on February 3, 2025, and $150 million through the re-opening of its 4.75 percent medium-term notes, series 3, due April 30, 2043. Net proceeds were used to reduce short-term indebtedness of the Company under its credit facilities, and will also be used to fund Pembina's capital program and for other general corporate purposes.

Liquidity & Capital Resources

($ millions)	**December 31, 2014**	December 31, 2013
Working capital[1]	**(17)**	(170)
Variable rate debt[2]		
Bank debt	**510**	50
Total variable rate debt outstanding (average of 2.74%)	**510**	50
Fixed rate debt[2]		
Senior unsecured notes	**467**	642
Senior unsecured term debt		75
Senior unsecured medium-term notes	**1,500**	900
Subsidiary debt		8
Total fixed rate debt outstanding (average of 4.8%)	**1,967**	1,625
Convertible debentures[2]	**410**	633
Finance lease liability	**10**	9
Total debt and debentures outstanding	**2,897**	2,317
Cash and unutilized debt facilities	**1,073**	1,531

(1) As at December 31, 2014, working capital includes $4 million (December 31, 2013: $262 million) associated with the current portion of loans and borrowings.

(2) Face value.

Pembina anticipates cash flow from operating activities will be more than sufficient to meet its short-term operating obligations and fund its targeted dividend level. Recent global economic conditions have had a downward effect on commodity pricing; however, Pembina's business model is largely comprised of cash flow derived from fee-for-service arrangements, which helped mitigate the impact of the market downturn during the latter part of 2014. Pembina believes that its reliable cash flow, limited commodity exposure (with the exception of portions of its Midstream business) and strong credit profile will enable it to preserve its financial strength into the foreseeable future, particularly as the Company brings its $5.8 billion of long-term, fee-for-service-based projects into service throughout the 2015 to late 2017 timeframe. In the short-term, Pembina expects to source funds required for capital projects from cash and cash equivalents, unutilized debt facilities and the DRIP. Further, based on its successful access to financing in the debt and equity markets recently and over the past several years, Pembina believes it should continue to have access to funds at attractive rates, if and when required, despite the recent weakened global economic environment. Refer to "Risk Factors – Additional Financing and Capital Resources" for more information. Management remains satisfied that the leverage employed in Pembina's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base.

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

Pembina's credit facilities at December 31, 2014 consisted of an unsecured $1.5 billion (2013: $1.5 billion) revolving credit facility, which maturity was extended during the year to March 2019, and an operating facility of $30 million (2013: $30 million) due July 2015, which is expected to be renewed on an annual basis. Borrowings on the revolving credit facility and the operating facility bear interest at prime lending rates plus nil to 1.25 percent (2013: nil to 1.25 percent) or Bankers' Acceptances rates plus 1.00 percent to 2.25 percent (2013: 1.0 to 2.25 percent). Margins on the credit facilities are based on the credit rating of Pembina's senior unsecured debt. There are no repayments due over the term of these facilities. As at December 31, 2014, Pembina had $1,073 million (2013: $1,531 million) of cash and unutilized debt facilities. Pembina also had an additional $38 million (2013: $8 million) in letters of credit issued in a separate demand letter of credit facility. At December 31, 2014, Pembina had loans and borrowings (excluding amortization, letters of credit and finance lease liabilities) of $2,477 million (2013:

$1,675 million). Pembina's senior debt to total capital at December 31, 2014 was 27 percent (2013: 22 percent). Pembina is required to meet certain specific and customary affirmative and negative financial covenants under its senior unsecured notes, medium-term notes and revolving credit and operating facilities including a requirement to maintain certain financial ratios. Pembina is also subject to customary restrictions on its operations and activities under its notes and facilities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets. Pembina was in compliance with all covenants under its notes and facilities as at the quarter ended December 31, 2014 and as at December 31, 2013.

During the fourth quarter of 2014, $21 million of Pembina's convertible debentures (face value) were converted into one million common shares. The conversions were primarily of Series C convertible debentures maturing November 30, 2020 with a conversion price of $28.55 per common share.

Credit Ratings

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

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

Capital Expenditures

	3 Months Ended December 31 (Unaudited)		**12 Months Ended December 31**	
($ millions)	**2014**	2013	**2014**	2013
Development capital				
Conventional Pipelines	**232**	126	**628**	325
Oil Sands & Heavy Oil	**6**	5	**41**	38
Gas Services	**79**	56	**295**	258
Midstream	**135**	87	**390**	254
Corporate/other projects	**31**	1	**58**	5
Total development capital	**483**	275	**1,412**	880

During the full-year and fourth quarter of 2014, capital expenditures were $1,412 million and $483 million, respectively, compared to $880 million and $275 million in the same periods of 2013.

The majority of the capital expenditures in the 2014 periods were in Pembina's Conventional Pipelines, Midstream, and Gas Services businesses. Conventional Pipelines' capital was for the most part incurred to complete its previously announced Simonette Expansion and progress its Phase II and Phase III Expansions. Midstream's capital

expenditures were primarily directed towards RFS II, cavern development, the Cynthia Full-Service Terminal, above ground storage and related infrastructure at the Redwater facility. Gas Services' capital was deployed to progress the Resthaven, Saturn II and Musreau II facilities.

With respect to Pembina's planned capital expenditures for 2015, refer to "Conventional Pipelines – New Developments", "Oil Sands & Heavy Oil – New Developments", "Gas Services – New Developments" and "Midstream – New Developments." Also refer to "Risk Factors – Completion and Timing of Expansion Projects" and "Risk Factors – Possible Failure to Realize Anticipated Benefits of Corporate Strategy" and Pembina's press release dated December 1, 2014.

Contractual Obligations at December 31, 2014

($ millions)	Payments Due By Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**After 5 years**
Operating and finance leases[1]	745	55	145	153	392
Loans and borrowings[2][4]	3,951	94	189	964	2,704
Convertible debentures[2]	534	25	73	187	249
Construction commitments[3][5]	1,983	1,724	192	67	
Provisions	410		34	3	373
Total contractual obligations[2]	7,623	1,898	633	1,374	3,718

(1) Includes office space, vehicles, and over 3,500 rail car leases supporting future propane transportation in the Midstream business (approximately 1,200 rail car leases at December 31, 2014).

(2) Excluding deferred financing costs.

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

(4) Including interest payments on senior unsecured notes.

(5) Including investment commitments to equity accounted investees of $5 million.

Pembina is, subject to certain conditions, contractually committed to the construction and operation of the Saturn II Facility, the Musreau II and III facilities, the Resthaven Expansion, SEEP, RFS II, RFS III, the Phase II, III and NEBC pipeline expansions, as well as certain pipeline connections and laterals and select caverns at the Company's Redwater site. See "Forward-Looking Statements & Information" and "Liquidity & Capital Resources."

The Company updated its estimates for decommissioning obligations as outlined in Note 15 to the Consolidated Financial Statements. The Company has estimated the net present value of its total decommissioning obligations based on a total future liability of $410 million (2013: $309 million). The estimate has applied a medium-term inflation rate and current discount rate and includes a revision in the decommissioning assumptions and associated costs and timing of payments. The obligations are expected to be paid over the next 75 years (2013: 75 years) with majority being paid between 30 and 40 years. The Company applied a 2 percent inflation rate per annum (2013: 2 percent) and a risk free rate of 2.3 percent (2013: 3.2 percent) to calculate the present value of the decommissioning provision.

Trading Activity and Total Enterprise Value[1]

		As at and for the 12 months ended	
($ millions, except where noted)	**February 24, 2015**[2]	December 31, 2014	December 31, 2013
Trading volume and value			
Total volume *(millions of shares)*	**40**	240	142
Average daily volume *(thousands of shares)*	**1,091**	955	566
Value traded	**1,592**	10,379	4,580
Shares outstanding *(millions of shares)*	**340**	338	315
Closing share price *(dollars)*	**39.82**	42.34	37.42
Market value			
Common shares	**13,526**	14,308	11,793
Series 1 Preferred Shares (PPL.PR.A)	**216**[3]	244[4]	242[5]
Series 3 Preferred Shares (PPL.PR.C)	**135**[6]	150[7]	151[8]
Series 5 Preferred Shares (PPL.PR.E)	**251**[9]	257[10]	
Series 7 Preferred Shares (PPL.PR.G)	**242**[11]	250[12]	
5.75% convertible debentures (PPL.DB.C)	**324**[13]	347[14]	396[15]
5.75% convertible debentures (PPL.DB.E)	**38**[16]	37[17]	244[18]
5.75% convertible debentures (PPL.DB.F)	**206**[19]	208[20]	219[21]
Market capitalization	**14,938**	15,801	13,045
Senior debt	**2,607**	2,477	1,617
Cash and cash equivalents	**(26)**	(53)	(51)
Total enterprise value[22]	**17,519**	18,225	14,611

(1) Trading information in this table reflects the activity of Pembina securities on the Toronto Stock Exchange only.
(2) Based on 37 trading days from January 2, 2015 to February 24, 2015, inclusive.
(3) 10 million preferred shares outstanding at a market price of $21.65 at February 24, 2015.
(4) 10 million preferred shares outstanding at a market price of $24.40 at December 31, 2014.
(5) 10 million preferred shares outstanding at a market price of $24.26 at December 31, 2013.
(6) 6 million preferred shares outstanding at a market price of $22.50 at February 24, 2015.
(7) 6 million preferred shares outstanding at a market price of $24.97 at December 31, 2014.
(8) 6 million preferred shares outstanding at a market price of $25.15 at December 31, 2013.
(9) 10 million preferred shares outstanding at a market price of $25.11 at February 24, 2015.
(10) 10 million preferred shares outstanding at a market price of $25.70 at December 31, 2014.
(11) 10 million preferred shares outstanding at a market price of $24.15 at February 24, 2015.
(12) 10 million preferred shares outstanding at a market price of $25.02 at December 31, 2014.
(13) $231 million principal amount outstanding at a market price of $140.00 at February 24, 2015 and with a conversion price of $28.55.
(14) $236 million principal amount outstanding at a market price of $147.00 at December 31, 2014 and with a conversion price of $28.55.
(15) $299 million principal amount outstanding at a market price of $132.63 at December 31, 2013 and with a conversion price of $28.55.
(16) $23 million principal amount outstanding at a market price of $160.90 at February 24, 2015 and with a conversion price of $24.94.
(17) $23 million principal amount outstanding at a market price of $160.00 at December 31, 2014 and with a conversion price of $24.94.
(18) $163 million principal outstanding at a market price of $149.95 at December 31, 2013 and with a conversion price of $24.94.
(19) $150 million principal amount outstanding at a market price of $137.84 at February 24, 2015 and with a conversion price of $29.53.
(20) $150 million principal amount outstanding at a market price of $138.50 at December 31, 2014 and with a conversion price of $29.53.
(21) $172 million principal outstanding at a market price of $127.50 at December 31, 2013 with a conversion price of $29.53.
(22) Refer to "Non-GAAP and Additional GAAP Measures."

As indicated in the table above, Pembina's total enterprise value was $18.2 billion at December 31, 2014. The increase from 2013 was primarily due to greater common shares outstanding related to the DRIP and debenture conversions, shares issued in relation to the Vantage Acquisition, an increase in the price of Pembina's common shares and the addition of the preferred shares and additional debt.

Common Share Dividends

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

Preferred Share Dividends

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

DRIP

Eligible Pembina shareholders have the opportunity to receive, by reinvesting the cash dividends declared payable by Pembina on their common shares, either (i) additional common shares at a discounted subscription price equal to 95 percent of the Average Market Price (as defined in the DRIP), pursuant to the "Dividend Reinvestment Component" of the DRIP, or (ii) a premium cash payment (the "Premium Dividend™") equal to 102 percent of the amount of reinvested dividends, pursuant to the "Premium Dividend™ Component" of the DRIP. Additional information about the terms and conditions of the DRIP can be found at www.pembina.com.

Participation in the DRIP for the year end and fourth quarter 2014 was 57 percent of common shares outstanding. Proceeds for 2014 and the fourth quarter of 2014 totalled $321 million and $83 million respectively.

Critical Accounting Estimates

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

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

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

Judgments

(i) Business combinations

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

(ii) Depreciation and amortization

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

(iii) Functional currency

The determination of the Company's and its subsidiaries' functional currency requires assessing several factors, including the currency that predominantly influences sales price, operational and other costs, and to a lesser extent financing of the operations. Management has determined the functional currency of certain Conventional

Pipelines operations to be the U.S. dollar. The functional currency of all other entities was determined to be the Canadian dollar.

(iv) Impairment

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

Estimates

(i) Business Combinations

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

(ii) Provisions and contingencies

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

Based on the long-term nature of the decommissioning provision, the most significant uncertainties in estimating the provision are the discount rates used, the costs that will be incurred and the timing of when these costs will occur. In addition, in determining the provision it is assumed that the Company will utilize technology and materials that are currently available.

(iii) Deferred taxes

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

(iv) Depreciation and amortization

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

(v) Impairment tests

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

Changes in Accounting Policies

The following new standards, interpretations, amendments and improvements to existing standards issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Standards Interpretations

Committee ("IFRIC") were adopted as of January 1, 2014 without any material impact to Pembina's Financial Statements: IAS 32 Financial Instruments and IFRIC 21 Levies.

New Standards and Interpretations Not Yet Adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning on or after January 1, 2015. These standards have not been applied in preparing these Consolidated Financial Statements. Those which may be relevant to Pembina are described below:

IFRS 9 Financial Instruments (2014) is effective January 1, 2018 and is available for early adoption. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position and is assessing when adoption will occur.

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2017. The Company intends to adopt IFRS 15 for the annual period beginning on January 1, 2017. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

Controls and Procedures

Disclosure Controls and Procedures

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

An evaluation, as of December 31, 2014, of the effectiveness of the design and operation of Pembina's disclosure controls and procedures, as defined in Rule 13a – 15(e) and 15d – 15(e) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), was carried out by management, including the Chief Executive Offer ("CEO") and the Chief Financial Officer ("CFO"). Based on that evaluation, the CEO and CFO have concluded that the design and operation of Pembina's disclosure controls and procedures were effective as at December 31, 2014 to ensure that material information relating to the Company is made known to the CEO and CFO by others, particularly during the period during which the annual filings are being prepared.

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

Internal Control over Financial Reporting

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

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

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

Based on management's assessment as at December 31, 2014, the CEO and CFO have concluded that Pembina's internal control over financial reporting is effective.

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

The effectiveness of internal control over financial reporting as of December 31, 2014 was audited by KPMG LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Public Accounting Firm, which is included in this 2014 Annual Report to Shareholders.

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

Risk Factors

Pembina's value proposition is based on maintaining a low risk profile. In addition to contractually eliminating the majority of its business risk, Pembina has a formal Risk Management Program including policies, procedures and systems designed to mitigate any residual risks. The risks that may affect the business and operation of Pembina and its operating subsidiaries are described at a high level within this MD&A and more fully within Pembina's Annual Information Form ("AIF"), an electronic copy of which is available at www.pembina.com or on Pembina's SEDAR profile at www.sedar.com. Further, additional discussion about counterparty risk, market risk, liquidity risk and additional information on financial risk management can be found in Note 24 to the Consolidated Financial Statements.

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

Operational Risks

Operational risks include: pipeline leaks; the breakdown or failure of equipment, pipelines and facilities, information systems or processes; the compromise of information and control systems; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); spills at truck terminals and hubs; spills associated with the loading and unloading of harmful substances onto rail cars and trucks; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; operational disruptions or apportionment on third-party systems or refineries which may prevent the full utilization of Pembina's facilities and pipelines; and catastrophic events such as natural disasters, fires, floods, explosions, train derailments, earthquakes, acts of terrorists and saboteurs, and other similar events, many of which are beyond the control of Pembina. Pembina may also be exposed from time to time, to additional operational risks not stated in the

immediately preceding sentences. The occurrence or continuance of any of these events could increase the cost of operating Pembina's assets or reduce revenue, thereby impacting earnings. Additionally, Pembina's facilities and pipelines are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply or distribution or transmission systems could significantly affect ongoing operations. In addition, a significant increase in the cost of power or fuel could have a materially negative effect on the level of profit realized in cases where the relevant contracts do not provide for recovery of such costs.

Additional Financing and Capital Resources

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

Commodity price risk

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

The Midstream business is also exposed to possible price declines between the time Pembina purchases NGL feedstock and sells NGL products, and to decreasing frac spreads. Frac spread is the difference between the selling prices for NGL products and the cost of NGL sourced from natural gas and acquired at natural gas-related prices. Frac spreads can change significantly from period to period depending on the relationship between crude oil and natural gas prices (the "frac spread ratio"), absolute commodity prices, and changes in the Canadian to U.S. dollar

foreign exchange rate. There is also a differential between NGL product prices and crude oil prices which can change margins realized for midstream products separate from frac spread ratio changes. The amount of profit or loss made on the extraction portion of the NGL midstream business will generally increase or decrease with frac spreads. This exposure could result in variability of cash flow generated by the NGL midstream business, which could affect Pembina and the cash dividends of Pembina.

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

Foreign exchange risk

Pembina's commodity-related cash flows and some of its capital are subject to currency risk, primarily arising from the denomination of specific earnings and cash flows in U.S. dollars. Pembina responds to this risk using an active Risk Management Program to exchange foreign currency for domestic currency at a fixed rate.

Interest rate risk

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

Reputation

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

Environmental Costs and Liabilities

Pembina's operations, facilities and petroleum product shipments are subject to extensive national, regional and local environmental, health and safety laws and regulations governing, among other things, discharges to air, land and water, the handling and storage of petroleum products and hazardous materials, waste disposal, the protection of employee health, safety and the environment, and the investigation and remediation of contamination. Pembina's facilities could experience incidents, malfunctions or other unplanned events that result in spills or emissions in excess of permitted levels and result in personal injury, fines, penalties or other sanctions and property damage. Pembina could also incur liability in the future for environmental contamination associated with past and present activities and properties. The facilities and pipelines must maintain a number of environmental and other permits from various governmental authorities in order to operate, and these facilities

are subject to inspection from time to time. Failure to maintain compliance with these requirements could result in operational interruptions, fines or penalties, or the need to install potentially costly pollution control technology. Licenses and permits must be renewed from time to time and there is no guarantee that the license will be renewed on the same or similar conditions. There can be no assurance that we will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. Further, if at any time regulatory authorities deem any one of Pembina's pipelines or facilities unsafe or not in compliance with applicable laws, they may order it shut down.

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

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

Abandonment Costs

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

Pembina has complied with the National Energy Board ("NEB") requirements on its NEB-regulated pipelines for the creation of abandonment funds and has completed the compliance-based filings that are required under the applicable NEB rules and regulations regarding the abandonment of its pipeline systems and assets. Pembina also has a 50 percent ownership in a NEB-regulated pipeline lateral which is operated by a joint venture partner. The joint venture partner is responsible for the submission of the NEB-compliance based filings for this asset, which Pembina is in the process of reviewing. Pembina will continue to monitor any regulatory changes prior to the next five-year review, and will complete the annual reporting as required by the NEB. Pembina-operated rate regulated pipelines account for less than 206 km, or three percent, of the total infrastructure in the Conventional Pipelines business.

Reserve Replacement, Throughput and Product Demand

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

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

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

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

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

Completion and Timing of Expansion Projects

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

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

Possible Failure to Realize Anticipated Benefits of Corporate Strategy

Pembina evaluates the value proposition for expansion projects, new acquisitions or divestitures on an ongoing basis. Planning and investment analysis is highly dependent on accurate forecasting assumptions and to the extent that these assumptions do not materialize, financial performance may be lower or more volatile than expected. Volatility in the economy, change in cost estimates, project scoping and risk assessment could result in a loss in profits for Pembina. Large-scale acquisitions in particular may involve significant pricing and integration risk. As part of its ongoing strategy, Pembina may complete acquisitions of assets or other entities 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 Pembina's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Pembina. The integration of acquired businesses and entities 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 Pembina's ability to achieve the anticipated benefits of any acquisitions. Acquisitions may also expose Pembina to additional risks, including entry into markets or businesses in which Pembina has little or no direct prior experience, increased credit risks through the assumption of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Debt Service

At the end of 2014, Pembina had exposure to floating interest rates on $510 million in debt, which was subsequently repaid in February 2015. Debt exposure is managed by using derivative financial instruments. A one percent change in short-term interest rates would have an annualized impact of approximately $4 million on net cash flows.

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

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

The lenders under Pembina's unsecured credit facilities have also been provided with guarantees and subordination agreements. If Pembina becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, payments to all of the lenders will rank in priority to dividends and payments to holders of convertible debentures.

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

Selected Quarterly Operating Information

	2014				2013				2012
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Average volume *(mbpd unless stated otherwise)*									
Conventional Pipelines throughput	**612**	**564**	**573**	**553**	500	489	484	494	480
Oil Sands & Heavy Oil contracted capacity, end of period	**880**	**880**	**880**	**880**	880	880	870	870	870
Gas Services processing *(mboe/d)*[(1)]	**97**	**71**	**87**	**88**	66	48	48	50	46
NGL sales volume	**130**	**107**	**105**	**133**	122	99	94	123	116
Total	**1,719**	**1,622**	**1,645**	**1,654**	1,568	1,516	1,496	1,537	1,512

(1) Net to Pembina. Converted to mboe/d from MMcf/d at a 6:1 ratio.

Selected Quarterly Financial Information

	2014				2013				2012
($ millions, except where noted)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Revenue	**1,259**	**1,445**	**1,606**	**1,759**	1,282	1,300	1,175	1,249	1,265
Operating expenses	**117**	**98**	**91**	**95**	101	87	91	77	86
Cost of goods sold, including product purchases	**955**	**1,087**	**1,246**	**1,312**	903	983	880	934	968
Realized gain (loss) on commodity-related derivative financial instruments	**8**	**4**		**(2)**	(3)	(4)	4	2	11
Operating margin[(1)]	**195**	**264**	**269**	**350**	275	226	208	240	222
Depreciation and amortization included in operations	**62**	**51**	**51**	**52**	42	47	32	42	48
Unrealized gain (loss) on commodity-related derivative financial instruments	**11**	**3**	**(4)**	**4**	2	(2)	1	6	(2)
Gross profit	**144**	**216**	**214**	**302**	235	177	177	204	172
EBITDA[(1)]	**170**	**199**	**235**	**316**	235	201	185	211	198
Cash flow from operating activities	**196**	**188**	**155**	**261**	208	94	151	232	145
Cash flow from operating activities per common share – basic *(dollars)*[(1)]	**0.58**	**0.57**	**0.48**	**0.82**	0.66	0.30	0.49	0.78	0.50
Adjusted cash flow from operating activities[(1)]	**164**	**158**	**191**	**264**	185	188	150	202	172[(2)]
Adjusted cash flow from operating activities per common share – basic[(1)] *(dollars)*	**0.49**	**0.48**	**0.59**	**0.83**	0.59	0.61	0.49	0.68	0.59
Earnings for the period	**84**	**75**	**77**	**147**	95	72	93	91	81
Earnings per common share – basic *(dollars)*	**0.22**	**0.20**	**0.21**	**0.44**	0.29	0.22	0.30	0.30	0.28
Earnings per common share – diluted (dollars*)*	**0.22**	**0.20**	**0.21**	**0.41**	0.29	0.22	0.30	0.30	0.28
Common shares outstanding *(millions)*:									
Weighted average – basic	**335**	**327**	**323**	**319**	314	311	308	296	292
Weighted average – diluted	**336**	**329**	**325**	**340**	315	312	309	297	293
End of period	**338**	**329**	**325**	**321**	315	312	310	307	293
Common share dividends declared	**146**	**143**	**140**	**134**	132	129	125	121	118
Common dividends per share (*dollars)*	**0.435**	**0.435**	**0.430**	**0.420**	0.420	0.415	0.405	0.405	0.405
Preferred share dividends declared	**10**	**8**	**7**	**6**	5				

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

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

- Increased oil production from customers operating in the Montney, Cardium and Deep Basin Cretaceous formations of west central Alberta, which resulted in increased service offerings, new connections and capacity expansions in these areas;
- Increased liquids-rich natural gas production from producers in the WCSB (Deep Basin, Montney and emerging Duvernay Shale plays), which resulted in increased gas gathering and processing at the Company's Gas Services assets, additional associated NGL transported on its pipelines and expansion of its fractionation capacity;
- New assets being placed into service;
- An improved propane market in North America throughout the fourth quarter of 2013 and first quarter of 2014 and an overall significantly weaker commodity market (especially the weaker propane market) during the fourth quarter of 2014;
- Increased shares outstanding due to: the DRIP, debenture conversions, the Vantage Acquisition and the bought deal equity financing in the first quarter of 2013; and
- Increased preferred share dividend payments due to additional preferred shares issued in the first and third quarter of 2014.

Selected Annual Financial Information

($ millions, except where noted)	**2014**	2013	2012
Revenue	**6,069**	5,006	3,427
Earnings	**383**	351	225
Per common share – basic *(dollars)*	**1.07**	1.12	0.87
Per common share – diluted *(dollars)*	**1.06**	1.12	0.87
Total assets	**11,262**	9,142	8,284
Long-term financial liabilities[1]	**3,428**	2,454	3,005
Declared dividends per common share *($ per share)*	**1.72**	1.65	1.61
Preferred share dividends declared	**31**	5	

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

Additional Information

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

Non-GAAP and Additional GAAP Measures

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

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

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

Net revenue

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

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions)	**2014**	2013	**2014**	2013
Revenue	**1,259**	1,282	**6,069**	5,006
Cost of goods sold, including product purchases	**955**	903	**4,600**	3,700
Net revenue	**304**	379	**1,469**	1,306

EBITDA

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

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

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions, except per share amounts)	**2014**	2013	**2014**	2013
Results from operating activities	**114**	191	**702**	660
Share of profit from equity accounted investees (before tax, depreciation and amortization)	**2**	2	**6**	8
Depreciation and amortization	**65**	44	**226**	171
Unrealized gain on commodity-related derivative financial instruments	**(11)**	(2)	**(14)**	(7)
EBITDA	**170**	235	**920**	832
EBITDA per common share – basic *(dollars)*	**0.51**	0.75	**2.82**	2.71

Adjusted cash flow from operating activities

Adjusted cash flow from operating activities is a non-GAAP measure which is defined as cash flow from operating activities plus the change in non-cash operating working capital, adjusting for current tax and share-based payment expenses, and less preferred share dividends declared. Adjusted cash flow from operating activities excludes preferred share dividends because they are not attributable to common shareholders. The calculation has been modified to include current tax and share-based payment expense as it allows management to better assess the obligations discussed below. Management believes that adjusted cash flow from operating activities provides comparable information to investors for assessing financial performance during each reporting period. Management utilizes adjusted cash flow from operating activities to set objectives and as a key performance indicator of the Company's ability to meet interest obligations, dividend payments and other commitments.

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions, except per share amounts)	**2014**	2013	**2014**	2013
Cash flow from operating activities	**196**	208	**800**	685
Add (deduct):				
Change in non-cash operating working capital	**(14)**	10	**33**	96
Current tax expenses	**(28)**	(19)	**(103)**	(38)
Tax paid	**11**		**81**	
Accrued share-based payments	**9**	(9)	**(33)**	(30)
Share-based compensation payment			**30**	17
Preferred share dividends declared	**(10)**	(5)	**(31)**	(5)
Adjusted cash flow from operating activities	**164**	185	**777**	725
Cash flow from operating activities per common share – basic *(dollars)*	**0.58**	0.66	**2.45**	2.23
Adjusted cash flow from operating activities per common share – basic *(dollars)*	**0.49**	0.59	**2.38**	2.36

Operating margin

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

Reconciliation of operating margin to gross profit:

	3 Months Ended December 31 (unaudited)		**12 Months Ended December 31**	
($ millions)	**2014**	2013	**2014**	2013
Revenue	**1,259**	1,282	**6,069**	5,006
Cost of sales (excluding depreciation and amortization included in operations)				
Operating expenses	**117**	101	**401**	356
Cost of goods sold, including product purchases	**955**	903	**4,600**	3,700
Realized gain (loss) on commodity-related derivative financial instruments	**8**	(3)	**10**	(1)
Operating margin	**195**	275	**1,078**	949
Depreciation and amortization included in operations	**62**	42	**216**	163
Unrealized gain on commodity-related derivative financial instruments	**11**	2	**14**	7
Gross profit	**144**	235	**876**	793

Total enterprise value

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

Forward-Looking Statements & Information

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

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

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

- the future levels of cash dividends that Pembina intends to pay to its shareholders, the dividend payment date and the tax treatment thereof;
- planning, construction, capital expenditure estimates, schedules, regulatory and environmental applications and approvals, expected capacity, incremental volumes, in-service dates, rights, activities, benefits and operations with respect to new construction of, or expansions on existing, pipelines, gas services facilities, fractionation facilities, terminalling, storage and hub facilities and other facilities or energy infrastructure;
- pipeline, processing, fractionation and storage facility and system operations and throughput levels;
- Pembina's strategy and the development and expected timing of new business initiatives and growth opportunities;
- Pembina's strategy for payment of future abandonment costs;
- increased throughput potential due to increased oil and gas industry activity and new connections and other initiatives on Pembina's pipelines and at Pembina's facilities;
- expected future cash flows, future contractual obligations, future financing options, availability of capital to fund growth plans, operating obligations and dividends and the use of proceeds from financings;
- expected contributions and expenses pertaining to Pembina's pension plans;
- anticipated impact of acquisitions on the Company's future cash flows, financial position and commercial opportunities;
- processing, transportation, fractionation, storage and services commitments and contracts; and
- the impact of share price and discount rate on annual share-based incentive expense.

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

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

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

- the regulatory environment and decisions;
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key relationships and agreements and the outcome of stakeholder engagement;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non-performance or default by counterparties to agreements which Pembina or one or more of its affiliates has entered into in respect of its business;
- actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation;
- fluctuations in operating results;
- adverse general economic and market conditions in Canada, North America and elsewhere, including changes in interest rates, foreign currency exchange rates and commodity prices; and
- the other factors discussed under "Risk Factors" in Pembina's AIF for the year ended December 31, 2014. Pembina's MD&A and AIF are available at www.pembina.com and in Canada under Pembina's company profile on www.sedar.com and in the U.S. on the Company's profile at www.sec.gov.

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

MANAGEMENT'S REPORT

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

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

Management's Assessment of Internal Controls over Financial Reporting

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

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

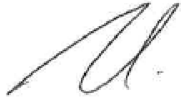
Further, there has been no change in the Company's internal control over financial reporting that occurred during the year covered by this Annual Report that has materially affected, or are reasonably likely to materially affect, Pembina's internal control over financial reporting.

Based on management's assessment as at December 31, 2014, management has concluded that Pembina's internal control over financial reporting is effective.

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

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

KPMG LLP, the independent auditors, have audited the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), and have also audited the effectiveness of Pembina's internal control over financial reporting as of December 31, 2014 and has included an attestation report on management's assessment in their reports which follow. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.



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

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

February 26, 2015

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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Pembina Pipeline Corporation

We have audited the accompanying consolidated financial statements of Pembina Pipeline Corporation, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pembina Pipeline Corporation as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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Other Matter

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pembina Pipeline Corporation's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2015 expressed an unmodified (unqualified) opinion on the effectiveness of Pembina Pipeline Corporation's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Calgary, Canada

February 26, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Pembina Pipeline Corporation

We have audited Pembina Pipeline Corporation (the "Corporation") internal control over financial reporting as at December 31, 2014, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Corporation as of December 31, 2014 and December 31, 2013, and the related consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and our report dated February 26, 2015 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Calgary, Canada

February 26, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 *($ millions)*	Note	**2014**	2013
Assets			
Current assets			
Cash and cash equivalents		**53**	51
Trade receivables and other	7	**447**	434
Derivative financial instruments	24	**51**	4
Inventory		**137**	159
		688	648
Non-current assets			
Property, plant and equipment	8	**7,560**	5,750
Intangible assets and goodwill	9	**2,841**	2,564
Investments in equity accounted investees	10	**153**	165
Derivative financial instruments	24	**1**	
Deferred tax assets	11	**19**	15
		10,574	8,494
Total Assets		**11,262**	9,142
Liabilities and Equity			
Current liabilities			
Trade payables and accrued liabilities	12	**550**	461
Tax payable		**58**	38
Dividends payable		**49**	44
Loans and borrowings	13	**4**	262
Derivative financial instruments	24	**44**	13
		705	818
Non-current liabilities			
Loans and borrowings	13	**2,466**	1,409
Convertible debentures	14	**391**	604
Derivative financial instruments	24	**73**	107
Employee benefits and share-based payments		**44**	20
Deferred revenue	17	**44**	5
Provisions	15	**410**	309
Deferred tax liabilities	11	**793**	699
		4,221	3,153
Total Liabilities		**4,926**	3,971
Equity			
Equity attributable to shareholders of the Company			
Common share capital	16	**6,876**	5,972
Preferred share capital	16	**880**	391
Deficit		**(1,400)**	(1,189)
Accumulated other comprehensive income		**(20)**	(8)
		6,336	5,166
Non-controlling interest			5
Total Equity		**6,336**	5,171
Total Liabilities and Equity		**11,262**	9,142

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Year Ended December 31 *($ millions, except per share amounts)*	Note	**2014**	2013
Revenue	20	**6,069**	5,006
Cost of sales		**5,217**	4,219
Gain on commodity-related derivative financial instruments		**24**	6
Gross profit	20	**876**	793
General and administrative		**156**	132
Other expense		**18**	1
		174	133
Results from operating activities		**702**	660
Net finance costs	19	**130**	166
Earnings before income tax and equity accounted investees		**572**	494
Share of loss of investment in equity accounted investees, net of tax		**22**	
Current tax expense	11	**103**	38
Deferred tax expense	11	**64**	105
Income tax expense		**167**	143
Earnings for the year attributable to shareholders		**383**	351
Other comprehensive income (loss)			
Remeasurements of defined benefit liability, net of tax	22	**(14)**	18
Items that will not be reclassified into earnings, net of tax		**(14)**	18
Exchange differences on translation of foreign operations		**2**	
Other comprehensive income (loss), net of tax		**(12)**	18
Total comprehensive income attributable to shareholders		**371**	369
Earnings per common share – basic *(dollars)*	21	**1.07**	1.12
Earnings per common share –diluted *(dollars)*	21	**1.06**	1.12
Weighted average number of common shares *(millions)*			
Basic	21	**326**	307
Diluted	21	**328**	308

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to Shareholders of the Company						
($ millions)	Note	Common Shares	Preferred Shares	Deficit	Accumulated Other Comprehensive Income	Total	Non-controlling Interest	Total Equity
December 31, 2012		5,324		(1,028)	(26)	4,270	5	4,275
Total comprehensive income								
Earnings				351		351		351
Other comprehensive income								
Defined benefit plan actuarial gains, net of tax of $6	22				18	18		18
Total comprehensive income				351	18	369		369
Transactions with shareholders of the Company								
Common shares issued, net of issue costs	16	335				335		335
Preferred shares issued, net of issue costs	16		391			391		391
Dividend reinvestment plan	16	286				286		286
Share-based payment transactions, debenture conversions and other	16	27				27		27
Dividends declared – common	16			(507)		(507)		(507)
Dividends declared – preferred	16			(5)		(5)		(5)
Total transactions with shareholders of the Company		648	391	(512)		527		527
December 31, 2013		5,972	391	(1,189)	(8)	5,166	5	5,171
Total comprehensive income								
Earnings				383		383		383
Other comprehensive income								
Defined benefit plan actuarial losses, net of tax of ($5)	22				(14)	(14)		(14)
Exchange differences on translation of foreign operations					2	2		2
Total comprehensive income				383	(12)	371		371
Transactions with shareholders of the Company								
Common shares issued, net of issue costs	6, 16	265				265		265
Preferred shares issued, net of issue costs	16		489			489		489
Dividend reinvestment plan	16	321				321		321
Debenture conversions	16	293				293		293
Share-based payment transactions and other	16	25				25		25
Dividends declared – common	16			(563)		(563)		(563)
Dividends declared – preferred	16			(31)		(31)		(31)
Total transactions with shareholders of the Company		904	489	(594)		799		799
Disposal of subsidiary							(5)	(5)
December 31, 2014		6,876	880	(1,400)	(20)	6,336		6,336

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *($ millions)*	Note	**2014**	2013
Cash provided by (used in)			
Operating activities			
Earnings		**383**	351
Adjustments for			
Depreciation and amortization		**226**	171
Net finance costs	19	**130**	166
Share of loss of investment in equity accounted investees, net of tax		**22**	
Income tax expense	11	**167**	143
Share-based compensation expense	23	**39**	34
Unrealized gain on commodity-related derivative financial instruments	20	**(14)**	(7)
Net impairment – non-recoverable costs		**6**	
Inventory write-down	20	**38**	
Change in non-cash operating working capital		**(33)**	(96)
Payments from equity accounted investees and other		**23**	20
Share-based compensation payment		**(30)**	(17)
Net interest paid	19	**(76)**	(80)
Tax paid	11	**(81)**	
Cash flow from operating activities		**800**	685
Financing activities			
Bank borrowings and issuance of debt		**1,113**	370
Repayment of loans and borrowings		**(304)**	(649)
Issuance of common shares			345
Issuance of preferred shares		**500**	400
Issue costs and financing fees		**(21)**	(29)
Exercise of stock options		**20**	17
Dividends paid (net of shares issued under the dividend reinvestment plan)		**(269)**	(221)
Cash flow from financing activities		**1,039**	233
Investing activities			
Capital expenditures		**(1,412)**	(880)
Changes in non-cash investing working capital and other		**84**	34
Interest paid during construction	19	**(44)**	(35)
Contributions to equity accounted investees		**(8)**	(13)
Acquisition	6	**(457)**	
Cash flow used in investing activities		**(1,837)**	(894)
Change in cash		**2**	24
Cash, beginning of year		**51**	27
Cash and cash equivalents, end of year		**53**	51

See accompanying notes to the consolidated financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Pembina Pipeline Corporation ("Pembina" or the "Company") is an energy transportation and service provider domiciled in Canada. The consolidated financial statements ("Financial Statements") include the accounts of the Company, its subsidiary companies, partnerships and any interests in associates and joint arrangements as at and for the year ended December 31, 2014. These Financial Statements present fairly the financial position, financial performance and cash flows of the Company.

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

2. BASIS OF PREPARATION

a. Basis of measurement and statement of compliance

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

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

The Financial Statements were authorized for issue by the Board of Directors on February 26, 2015.

b. Functional and presentation currency

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

c. Use of estimates and judgments

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

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

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

Judgments

(i) Business combinations

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

(ii) Depreciation and amortization

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

(iii) Functional currency

The determination of the Company’s and its subsidiaries’ functional currency requires assessing several factors, including the currency that predominantly influences sales price, operational and other costs, and to a lesser extent financing of the operations. Management has determined the functional currency of certain Conventional Pipelines operations to be the U.S. dollar. The functional currency of all other entities was determined to be the Canadian dollar.

(iv) Impairment

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

Estimates

(i) Business Combinations

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

(ii) Provisions and contingencies

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

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

occur. In addition, in determining the provision it is assumed that the Company will utilize technology and materials that are currently available.

(iii) Deferred taxes

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

(iv) Depreciation and amortization

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

(v) Impairment tests

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

3. CHANGES IN ACCOUNTING POLICIES

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

The following new standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Standards Interpretations Committee ("IFRIC") were adopted as of January 1, 2014 without any material impact to Pembina's Financial Statements: IAS 32 Financial Instruments and IFRIC 21 Levies.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

i) Business combinations

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

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

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

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

ii) Subsidiaries

Subsidiaries are entities, including unincorporated entities such as partnerships, controlled by the Company. The financial statements of subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company.

iii) Investments in associates

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

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

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

iv) Joint arrangements

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

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

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

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

v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized revenue and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

vi) Foreign currency

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

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

Foreign currency differences arising on retranslation are recognized in earnings.

b. Inventories

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

c. Financial instruments

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

i) Non-derivative financial assets

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

ii) Non-derivative financial liabilities

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

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

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

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

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

iii) Common share capital

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

iv) Preferred share capital

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

v) Compound financial instruments

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

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

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

vi) Derivative financial instruments

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

d. Property, plant and equipment

i) Recognition and measurement

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

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

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

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

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

ii) Subsequent costs

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

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets, other than land, are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation is recognized in earnings on a straight line or declining balance basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 75 years (an average of 33 years) or declining balance method at rates ranging from 7 percent to 37 percent per annum (an average rate of 6 percent per annum). Facilities and equipment are depreciated using straight line method over 4 to 40 years (at an average rate of 34 years) or declining balance method at rates ranging from 10 to 20 percent (at an average rate of 6 percent per annum). Other assets are depreciated using the straight line method over 2 to 60 years (an average of 37 years) or declining balance method at rates ranging from 7 percent to 21 percent (at an average rate of 6 percent per annum). These rates are established to depreciate remaining net book value over the shorter of their useful lives, economic lives or contractual duration of the related assets.

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

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

e. Intangible assets

i) Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

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

ii) Other intangible assets

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

iii) Subsequent expenditures

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

iv) Amortization

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

Amortization is recognized in earnings on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of other intangible assets with finite useful lives range from 2 to 33 years (at an average of 15 years) or declining balance method at 9 percent per annum.

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

f. Leased assets

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

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

g. Lease payments

Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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

i) Determining whether an arrangement contains a lease

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

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

h. Impairment

i) Non-derivative financial assets

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

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

Trade receivables ("Receivables")

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

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

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

ii) Non-financial assets

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely

independent of the cash inflows of other assets or CGUs. For the purpose of goodwill impairment testing, CGUs are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal purposes. Goodwill acquired in a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

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

i. Employee benefits

i) Defined contribution plans

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

ii) Defined benefit pension plans

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

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

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

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

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

iii) Short-term employee benefits

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

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

iv) Share-based payment transactions

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

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

j. Provisions

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

Decommissioning obligation

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

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

k. Revenue

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

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

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

l. Finance income and finance costs

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

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

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

m. Income tax

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

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

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

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

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

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

n. Earnings per common share

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

The dilutive effect of Convertible Instruments is determined whereby outstanding Convertible Instruments at the end of the period are assumed to have been converted at the beginning of the period or at the time issued if

issued during the year. Amounts charged to earnings relating to the outstanding Convertible Instruments are added back to earnings for the diluted calculations. The shares issued upon conversion are included in the denominator of per share basic calculations for the date of issue.

o. Segment reporting

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

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

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

p. Cash flow statements

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

q. New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning on or after January 1, 2015. These standards have not been applied in preparing these Financial Statements. Those which may be relevant to Pembina are described below:

IFRS 9 Financial Instruments (2014) is effective January 1, 2018 and is available for early adoption. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position and is assessing when adoption will occur.

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2017. The Company intends to adopt IFRS 15 for the annual period beginning on January 1, 2017. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

5. DETERMINATION OF FAIR VALUES

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

i) Property, plant and equipment

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

ii) Intangible assets

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

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

iii) Derivatives

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

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

iv) Non-derivative financial assets and liabilities

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

v) Share-based payment transactions

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

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

vi) Inventories

The net realizable value of inventories is determined based on the estimated selling price in the ordinary course of business less estimated cost to sell.

vii) Finance lease assets

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

6. ACQUISITION

On October 24, 2014, the acquisition date, Pembina acquired the Vantage pipeline system ("Vantage") and Mistral Midstream Inc.'s ("Mistral") interest in the Saskatchewan Ethane Extraction Plant ("SEEP") for total consideration of $733 million (U.S.$653 million). To enact the purchase, Pembina acquired all of the issued and outstanding equity interests of Vantage Pipeline Canada ULC, Vantage Pipeline US LP and Mistral. Consideration for the transaction consisted of cash of $217 million (U.S.$193 million), the issuance of 5,610, 317 common shares of the Company valued at $266 million (U.S.$237 million), and repayment of Vantage's bank indebtedness of $250 million (U.S.$223 million) at closing (the "Acquisition). The fair value of the common shares issued was based on the Toronto Stock Exchange listed share price on the date of acquisition.

Vantage is a recently constructed, 700 kilometre, 40 thousand barrel per day ("mbpd"), high vapour pressure pipeline that originates in Tioga, North Dakota and terminates near Empress, Alberta. Vantage provides long-term, fee-for-service cash flow and strategic access to the prolific and growing North Dakota Bakken play for future natural gas liquids opportunities.

SEEP is an under construction 60 million cubic feet per day deep cut gas processing facility that is centrally located to service the southeast Saskatchewan Bakken region. The facility is underpinned by both a long-term ethane sales agreement and a long-term, fee-for-service processing agreement.

The purchase price equation, subject to finalization of property, plant and equipment and deferred tax liabilities, is based on assessed fair values and is as follows:

($ millions)	
Cash	10
Trade receivables and other	4
Property, plant and equipment	447
Intangible assets	204
Goodwill	130
Other long-term assets	2
Trade payables and accrued liabilities	(23)
Deferred tax liabilities	(41)
	733

The determination of fair values and the purchase price equation are based upon an independent valuation. The primary drivers that generate goodwill are synergies and business opportunities from the integration of Pembina and Vantage. Of the recognized goodwill, $2 million is expected to be deductible for tax purposes.

The Company has recognized $2 million in acquisition-related expenses. These expenses are included in Other expenses in the Financial Statements. With the exception of share issue costs, which have been capitalized, all acquisition-related expenses have been expensed as incurred.

Revenue generated by the Vantage business for the period from the Acquisition date of October 24, 2014 to December 31, 2014, before intersegment eliminations, was $6 million. Net earnings, before intersegment eliminations, for the same period were $1 million. If the acquisition had occurred on January 1, 2014, management estimates that consolidated revenue would have increased an additional $24 million, and consolidated profit for the year would have been $3 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2014. In addition, no corporate allocations of general and administrative expenses have been considered as these are assumed to be insignificant.

7. TRADE RECEIVABLES AND OTHER

December 31 *($ millions)*	**2014**	2013
Trade accounts receivable from customers	**429**	419
Prepayments	**18**	15
Total current trade and other receivables	**447**	434

8. PROPERTY, PLANT AND EQUIPMENT

($ millions)	**Land and Land Rights**	**Pipelines**	**Facilities and Equipment**	**Linefill and Other**	**Assets Under Construction**	**Total**
Cost						
Balance at December 31, 2012	88	2,594	2,072	506	752	6,012
Additions	7	104	285	59	425	880
Change in decommissioning provision		(19)	(8)			(27)
Capitalized interest		5	5		25	35
Transfers	11	105	320	130	(566)	
Disposals and other		(6)	(4)	2		(8)
Balance at December 31, 2013	106	2,783	2,670	697	636	6,892
Acquisition (Note 6)	38	345	18		46	447
Additions	4	129	282	85	912	1,412
Change in decommissioning provision		52	48			100
Capitalized interest		4	11		31	46
Transfers		85	256	43	(384)	
Disposals and other		21	(9)	(30)	(30)	(48)
Balance at December 31, 2014	148	3,419	3,276	795	1,211	8,849
Depreciation						
Balance at December 31, 2012	4	777	172	45		998
Depreciation	1	52	73	27		153
Transfers						
Disposals and other		(5)	(4)			(9)
Balance at December 31, 2013	5	824	241	72		1,142
Depreciation		49	88	45		182
Transfers						
Disposals and other		(1)	(9)	(25)		(35)
Balance at December 31, 2014	5	872	320	92		1,289
Carrying amounts						
December 31, 2013	101	1,959	2,429	625	636	5,750
December 31, 2014	143	2,547	2,956	703	1,211	7,560

Property, plant and equipment under construction

Costs of assets under construction at December 31, 2014 totalled $1,211 million (2013: $636 million) including capitalized borrowing costs.

For the year ended December 31, 2014, capitalized borrowing costs related to the construction of new pipelines or facilities amounted to $46 million (2013: $35 million), with capitalization rates ranging from 4.57 percent to 5.06 percent (2013: 4.4 percent to 5.0 percent).

Commitments

At December 31, 2014, the Company has contractual construction commitments for property, plant and equipment of $1,978 million (December 31, 2013: $1,322 million), excluding significant projects awaiting regulatory approval.

9. INTANGIBLE ASSETS AND GOODWILL

		Intangible Assets				
($ millions)	Goodwill	Purchase and Sale Contracts	Customer Relationships	Purchase Option	Total	Total Goodwill & Intangible Assets
Cost						
Balance at December 31, 2012	1,976	185	227	277	689	2,665
Additions and other	(10)	3			3	(7)
Balance at December 31, 2013	1,966	188	227	277	692	2,658
Acquisition (Note 6)	130		204		204	334
Additions and other	(6)		1		1	(5)
Balance at December 31, 2014	2,090	188	432	277	897	2,987
Amortization						
Accumulated amortization at December 31, 2012		27	15		42	42
Amortization		33	19		52	52
Balance at December 31, 2013		60	34		94	94
Amortization		32	20		52	52
Balance at December 31, 2014		92	54		146	146
Carrying amounts						
December 31, 2013	1,966	128	193	277	598	2,564
December 31, 2014	2,090	96	378	277	751	2,841

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

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

December 31 *($ millions)*	**2014**			2013		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Conventional Pipelines	**440**	**187**	**627**	316		316
Oil Sands & Heavy Oil	**28**	**5**	**33**	28	5	33
Gas Services	**182**	**35**	**217**	175	20	195
Midstream	**1,440**	**524**	**1,964**	1,447	573	2,020
	2,090	**751**	**2,841**	1,966	598	2,564

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the Company's operating segments which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes. Impairment testing for goodwill was performed at December 31, 2014. The recoverable amounts were based on their value in use and were determined to be higher than their carrying amounts.

Value in use was determined by discounting the future cash flows generated from the continuing use of each operating segment. The calculation of the value in use was based on the following key assumptions:

Cash flows were projected based on past experience, actual operating results and the first 4 years of the business plan approved by management. Cash flows for periods up to 75 years (2013: 75 years) were extrapolated using a constant medium-term inflation rate of 2 percent (2013: 2 percent), except where contracted, long-term cash flows indicated that no inflation should be applied or a specific reduction in cash flows was more appropriate. Pre-tax discount rates between 7.2 percent and 8.9 percent were applied in determining the recoverable amount of the operating segments. (2013: 8.6 and 9.4 percent). The discount rates were estimated based on past experience, the Company's risk free rate and average cost of debt, targeted debt to equity ratio, in addition to estimates of the specific operating segment's equity risk premium, size premium, small capitalization premium, projection risk, betas and tax rate.

10. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

The Company has a 50 percent interest in two joint ventures (Fort Saskatchewan Ethylene Storage Corporation and Fort Saskatchewan Ethylene Storage Limited Partnership) that are reported using the equity method of accounting. The carrying value of the investments at December 31, 2014 is $153 million (2013: $165 million).

At December 31, 2014, the Company has contractual commitments for additional investment in its equity accounted investees of $5 million (December 31, 2013: $24 million).

11. INCOME TAXES

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

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

[1] The Company has recognized a net deferred tax asset of $19 million (December 31, 2013: $15 million) relating to its U.S. subsidiaries. The Company has determined that it is probable that future taxable profits will be sufficient to utilize the deferred tax asset.

($ millions)	Balance at December 31, 2012	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2013
Deferred income tax assets							
Derivative financial instruments	23	(18)		1			6
Employee benefits	7	(1)	(6)				
Share-based payments	8	(8)					
Provisions	115	(37)					78
Benefit of loss carryforwards	77	(63)					14
Other deductible temporary differences	2	12			7	1	22
Deferred income tax liabilities							
Property, plant and equipment	(590)			2			(588)
Intangible assets	(127)	3					(124)
Investments in equity accounted investees	(22)	5					(17)
Taxable limited partnership income deferral	(75)	11					(64)
Other taxable temporary differences	(2)	(9)					(11)
Total deferred tax liabilities[1]	**(584)**	**(105)**	**(6)**	**3**	**7**	**1**	**(684)**

[1] The Company has recognized a net deferred tax asset of $15 million at December 31, 2013 (December 31, 2012: $8 million) relating to its U.S. subsidiaries. The Company has determined that it is probable that future taxable profits will be sufficient to utilize the deferred tax asset.

The Company's consolidated statutory tax rate for the year ended December 31, 2014 was 25 percent (2013: 25 percent).

Reconciliation of effective tax rate

Year Ended December 31 *($ millions, except as noted)*	**2014**	2013
Earnings before income tax	**572**	494
Statutory tax rate *(percent)*	**25**	25
Income tax at statutory rate	**143**	124
Tax rate changes on deferred income tax balances	**2**	1
Changes in estimate and other	**8**	5
Permanent items	**14**	13
Income tax expense	**167**	143

Income tax expense

Year Ended December 31 *($ millions)*	**2014**	2013
Current tax expense	**103**	38
Deferred tax expense		
Origination and reversal of temporary differences	**57**	51
Tax rate changes on deferred tax balances	**2**	1
Decrease in tax loss carry forward	**5**	53
Total deferred tax expense	**64**	105
Total income tax expense	**167**	143

The movement of the net deferred tax liability is as follows:

($ millions)	**2014**	2013
Balance at January 1	**684**	584
Deferred income tax expense	**64**	105
Income tax expense (benefit) in other comprehensive income	**(4)**	6
Acquisition	**41**	(3)
Preferred share issue costs	**(3)**	(7)
Other	**(8)**	(1)
Balance at December 31	**774**	684

Deferred tax items recovered directly in equity

Year Ended December 31 *($ millions)*	**2014**	2013
Preferred share issue costs	**3**	7
Other comprehensive (income) loss	**4**	(6)
Deferred tax items recovered directly in equity	**7**	1

Cash taxes paid during the year were $81 million (2013: nil).

The Company has temporary differences associated with its investments in foreign subsidiaries, branches, and interests in joint arrangements. At December 31, 2014, the Company has not recorded a deferred tax asset or liability for these temporary differences (December 31, 2013: nil) as the Company controls the timing of the reversal and it is not probable that the temporary differences will reverse in the foreseeable future.

At December 31, 2014, the Company had $34 million (December 31, 2013: $37 million) of U.S. tax losses that will expire after 2030. The Company has recorded deferred tax assets in respect of these losses, as it has been determined that it is probable that future taxable profits will be sufficient to utilize these losses.

12. TRADE PAYABLES AND ACCRUED LIABILITIES

December 31 *($ millions)*	**2014**	2013
Trade payables	**444**	359
Non-trade payables & accrued liabilities	**106**	102
Total current trade and other payables	**550**	461

13. LOANS AND BORROWINGS

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

Carrying value, terms and conditions, and debt maturity schedule

December 31 *($ millions)*	Available facilities at December 31, 2014	Nominal interest rate	Year of maturity	Carrying value 2014	2013
Operating facility[1]	30	prime + 0.45 or BA[2] + 1.45	2015[3]		
Revolving unsecured credit facility[1]	1,500	prime + 0.45 or BA[2] + 1.45	2019	**506**	46
Senior unsecured notes – Series A		5.99	2014		175
Senior unsecured notes – Series C	200	5.58	2021	**197**	197
Senior unsecured notes – Series D	267	5.91	2019	**266**	266
Senior unsecured term facility		6.16	2014		75
Senior unsecured medium-term notes 1	250	4.89	2021	**249**	249
Senior unsecured medium-term notes 2	450	3.77	2022	**448**	448
Senior unsecured medium-term notes 3	200	4.75	2043	**198**	198
Senior unsecured medium-term notes 4	600	4.81	2044	**596**	
Subsidiary debt		5.04	2014		8
Finance lease liabilities				**10**	9
Total interest bearing liabilities	3,497			**2,470**	1,671
Less current portion				**(4)**	(262)
Total non-current				**2,466**	1,409

[1] The nominal interest rate is based on the Company's credit rating at December 31, 2014.
[2] Bankers' Acceptance.
[3] Operating facility expected to be renewed on an annual basis.

Pembina's $1.5 billion revolving unsecured credit facility was extended by one year from March 2018 to March 2019 and the $30 million operating facility was also extended by one year from July 2014 to July 2015.

On April 4, 2014, the Company issued $600 million senior unsecured medium-term notes and subsequently repaid the $75 million senior unsecured term facility on April 7, 2014 and the $175 million senior unsecured notes (Series A) on June 16, 2014.

Subsequent to the year-end, Pembina closed an offering of $600 million of senior unsecured medium-term notes. See Note 29 regarding subsequent events.

All facilities are governed by specific debt covenants which Pembina has been in compliance with during the years ended December 31, 2014 and 2013.

For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see financial instruments and financial risk management Note 24.

14. CONVERTIBLE DEBENTURES

($ millions, except as noted)	**Series C – 5.75%**	**Series E – 5.75%**	**Series F – 5.75%**	**Total**
Conversion price *(dollars)*	**$28.55**	**$24.94**	**$29.53**	
Interest payable semi-annually in arrears on:	May 31 and November 30	June 30 and December 31	June 30 and December 31	
Maturity date	November 30, 2020	December 31, 2017	December 31, 2018	
Balance at December 31, 2012	290	160	160	610
Conversions	(1)	(9)	(1)	(11)
Unwinding of discount rate		1	1	2
Deferred financing fees (net of amortization)	1	1	1	3
Balance at December 31, 2013	290	153	161	604
Conversions	(62)	(134)	(21)	(217)
Unwinding of discount rate			1	1
Deferred financing fee (net of amortization)	1	1	1	3
Balance at December 31, 2014	229	20	142	391

The Series C debentures may be converted at the option of the holder at a conversion price of $28.55 per common share at any time prior to maturity and may be redeemed by the Company. The Company may, at its option prior to November 30, 2016, elect to redeem the Series C debentures in whole or in part, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125 percent of the conversion price of the Series C debentures. On or after November 30, 2016, the Series C debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest. The Company may also elect to pay interest on the debentures by issuing shares.

The Series E debentures may be converted at the option of the holder at a conversion price of $24.94 per common share at any time prior to maturity and may be redeemed by the Company. The Company may, at its option prior to December 31, 2015, elect to redeem the Series E debentures in whole or in part, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125 percent of the conversion price of the Series E debentures. On or after December 31, 2015, the Series E debentures may be redeemed in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest. Any accrued unpaid interest will be paid in cash.

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

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

15. PROVISIONS

The Company has estimated the net present value of its total decommissioning obligations based on a total future liability of $410 million (2013: $309 million). The estimate has applied a medium-term inflation rate and current discount rate and includes a revision in the decommissioning assumptions and associated costs and timing of payments. The obligations are expected to be paid over the next 75 years (2013: 75 years) with majority being paid between 30 and 40 years. The Company applied a 2 percent inflation rate per annum (2013: 2 percent) and a risk free rate of 2.3 percent (2013: 3.2 percent) to calculate the present value of the decommissioning provision. Changes in the measurement of the decommissioning provision were added to, or deducted from, the cost of the related asset in property, plant and equipment. Of the re-measurement reduction of the decommissioning provision, $8 million (2013: $33 million) was in excess of the carrying amount of the related asset and was credited to depreciation expense.

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

($ millions)	**2014**	2013
Balance at January 1	**309**	361
Unwinding of discount rate	**9**	9
Decommissioning liabilities settled during the period	**(1)**	(1)
Change in rates	**111**	(88)
Additions	**41**	4
Change in estimates and other	**(59)**	24
Balance at December 31	**410**	309

16. SHARE CAPITAL

Pembina is authorized to issue an unlimited number of common shares and an unlimited number of a class of preferred shares designated as Preferred Shares, Series A. The holders of the common shares are entitled to receive notice of, attend at and vote at any meeting of the shareholders of the Company, receive dividends declared and share in the remaining property of the Company upon distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs.

Pembina has adopted a shareholder rights plan ("Plan") as a mechanism designed to assist the board in ensuring the fair and equal treatment of all shareholders in the face of an actual or contemplated unsolicited bid to take control of the Company. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it will be difficult for the board to prepare an adequate response. Such offers may result in shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in Pembina. The Plan discourages the making of any such offers by creating the potential of significant dilution to any offeror who does so.

Common Share Capital

($ millions, except as noted)	Number of Common Shares (thousands)	Common Share Capital
Balance at December 31, 2012	293,226	5,324
Issued, net of issue costs	11,207	335
Dividend reinvestment plan	9,384	286
Share-based payment transactions, debenture conversions and other	1,327	27
Balance at December 31, 2013	315,144	5,972
Issued on Acquisition, net of issue costs (Note 6)	5,610	265
Dividend reinvestment plan	7,878	321
Debenture conversion	8,500	293
Share-based payment transactions and other	792	25
Balance at December 31, 2014	**337,924**	**6,876**

Preferred Share Capital

($ millions, except as noted)	Number of Preferred Shares (thousands)	Preferred Share Capital
Balance at December 31, 2012		
Class A, Series 1 Preferred shares issued, net of issue costs	10,000	244
Class A, Series 3 Preferred shares issued, net of issue costs	6,000	147
Balance at December 31, 2013	16,000	391
Class A, Series 5 Preferred shares issued, net of issue costs	10,000	244
Class A, Series 7 Preferred shares issued, net of issue costs	10,000	245
Balance at December 31, 2014	**36,000**	**880**

On July 26, 2013, Pembina issued 10 million cumulative redeemable 5-year rate reset Class A Preferred shares, Series 1 ("Series 1 Preferred Shares") at a price of $25.00 per Series 1 Preferred Share for aggregate proceeds of $250 million. The holders of Series 1 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of $1.0625 per share when declared by the Board of Directors. The dividend rate will reset on December 1, 2018 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 2.47 percent. The Series 1 Preferred Shares are redeemable by the Company at the Company's option on December 1, 2018 and on December 1 of every fifth year thereafter.

Holders of the Series 1 Preferred Shares have the right to convert all or any part of their shares into cumulative redeemable floating rate Class A Preferred shares, Series 2 ("Series 2 Preferred Shares"), subject to certain conditions, on December 1, 2018 and on December 1 of every fifth year thereafter. Holders of Series 2 Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 2.47 percent, if, as and when declared by the Board of Directors of Pembina.

On October 2, 2013, Pembina closed its offering of 6 million cumulative redeemable rate reset Class A Preferred shares, Series 3 (the "Series 3 Preferred Shares") at a price of $25.00 per share for aggregate proceeds of $150 million. The holders of Series 3 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of $1.1750 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on March 1, 2019 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada

bond yield plus 2.60 percent. The Series 3 Preferred Shares are redeemable by the Company at its option on March 1, 2019 and on March 1 of every fifth year thereafter.

Holders of the Series 3 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred shares, Series 4 ("Series 4 Preferred Shares"), subject to certain conditions, on March 1, 2019 and on March 1 of every fifth year thereafter. Holders of Series 4 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 2.60 percent, if, as and when declared by the Board of Directors of Pembina.

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

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

On September 11, 2014, Pembina closed its offering of 10 million cumulative redeemable rate reset Class A Preferred shares, Series 7 (the "Series 7 Preferred Shares") at a price of $25.00 per share for aggregate proceeds of $250 million. The holders of Series 7 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of $1.125 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on December 1, 2019 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 2.94 percent. The Series 7 Preferred Shares are redeemable by the Company at its option on December 1, 2019 and on December 1 of every fifth year thereafter.

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

Dividends

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

The following dividends were declared by the Company:

Year Ended December 31 *($ millions)*	**2014**	2013
Common shares		
$1.72 per qualifying share (2013: $1.65)	**563**	507
Preferred shares		
$1.06250 per qualifying Series 1 share (2013: $.3726)	**11**	4
$1.17500 per qualifying Series 3 share (2013: $.1932)	**7**	1
$1.08820 per qualifying Series 5 share (2013: nil)	**11**	
$0.24970 per qualifying Series 7 share (2013: nil)	**2**	
	31	5

On January 12, 2015, Pembina announced that the Board of Directors declared a dividend for January of $0.145 per qualifying common share ($1.74 annualized) in the total amount of $49 million. This dividend was paid on February 13, 2015 to shareholders of record on January 25, 2015.

On February 6, 2015, Pembina announced that the Board of Directors declared a dividend for February of $0.145 per qualifying common share ($1.74 annualized) payable on March 13, 2015 to shareholders of record on February 25, 2015.

On January 12, 2015, Pembina announced that the Board of Directors had declared a quarterly dividend of $0.265625 per qualifying Series 1 preferred share, $0.29375 per qualifying Series 3 preferred share, $0.3125 per qualifying Series 5 preferred share and $0.28125 per qualifying Series 7 preferred share in the total amount of $10 million payable on March 1, 2015.

17. DEFERRED REVENUE

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

18. PERSONNEL EXPENSES

Year Ended December 31 *($ millions)*	**2014**	2013
Salaries and wages	**177**	133
Share-based payment transactions	**39**	34
Short-term incentive plan	**28**	26
Pension plan expense	**13**	12
Health, savings plan and other benefits	**14**	10
	271	215

19. NET FINANCE COSTS

Year Ended December 31 *($ millions)*	**2014**	2013
Interest income from:		
Bank deposits and other	**(5)**	(5)
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	**57**	55
Convertible debentures	**33**	42
Unwinding of discount rates	**9**	9
Loss (gain) on fair value of non-commodity-related derivative financial instruments	**2**	(6)
Loss on revaluation of conversion feature of series E and F convertible debentures	**41**	71
Foreign exchange gains and other	**(7)**	
	130	166

Net interest paid of $120 million (2013: $115 million) includes interest paid during construction of $44 million (2013: $35 million).

20. OPERATING SEGMENTS

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

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

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

Gas Services consists of natural gas gathering and processing facilities, including 7 gas plants, 12 compressor stations and over 375 kilometres of gathering systems.

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

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

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

(1) 5 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

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

(3) Includes inventory write-down to net realizable value of $38 million.

(4) Conventional Pipelines revenue includes $1 million associated with U.S. pipeline sales.

Year Ended December 31, 2013 *($ millions)*	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Gas Services	Midstream[2]	Corporate & Intersegment Eliminations	Total
Revenue:						
Pipeline transportation	411	195			(67)	539
Terminalling, storage and hub services				4,346		4,346
Gas Services			121			121
Total revenue	411	195	121	4,346	(67)	5,006
Operating expenses	162	64	43	91	(4)	356
Cost of goods sold, including product purchases				3,766	(66)	3,700
Realized gain (loss) on commodity-related derivative financial instruments	2			(3)		(1)
Operating margin	251	131	78	486	3	949
Depreciation and amortization included in operations	12	17	20	114		163
Unrealized gain on commodity-related derivative financial instruments	1			6		7
Gross profit	240	114	58	378	3	793
Depreciation included in general and administrative					8	8
Other general and administrative	9	3	6	25	81	124
Acquisition-related and other expenses (income)	2			1	(2)	1
Reportable segment results from operating activities	229	111	52	352	(84)	660
Net finance costs (income)	5	1	1	(4)	163	166
Reportable segment earnings (loss) before tax	224	110	51	356	(247)	494
Capital expenditures	325	38	258	254	5	880

(1) 5 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) NGL product and services, terminalling, storage and hub services revenue includes $158 million associated with U.S. midstream sales.

21. EARNINGS PER COMMON SHARE

Basic earnings per common share

The calculation of basic earnings per common share at December 31, 2014 was based on the earnings attributable to common shareholders of $348 million (2013: $344 million) and a weighted average number of common shares outstanding of 326 million (2013: 307 million).

Diluted earnings per common share

The calculation of diluted earnings per common share at December 31, 2014 was based on earnings attributable to common shareholders of $348 million (December 31, 2013: $344 million), and weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 328 million (2013: 308 million).

Earnings attributable to common shareholders

Year Ended December 31 *($ millions)*	**2014**	2013
Earnings	**383**	351
Dividends on preferred shares	**(31)**	(5)
Cumulative dividends on preferred shares, not yet declared	**(4)**	(2)
Earnings contributable to common shareholders (basic and diluted)	**348**	344

Weighted average number of common shares

(In thousands of shares, except as noted)	**2014**	2013
Issued common shares at January 1	**315,144**	293,226
Effect of shares issued	**1,061**	8,781
Effect of share options exercised	**392**	350
Effect of conversion of convertible debentures	**5,622**	83
Effect of shares issued under dividend reinvestment plan	**4,047**	4,771
Weighted average number of common shares at December 31 (basic)	**326,266**	307,211
Dilutive effect of share options on issue	**1,390**	870
Weighted average number of common shares at December 31 (diluted)	**327,656**	308,081
Basic earnings per common share (dollars)	**$1.07**	$1.12
Diluted earnings per common share (dollars)	**$1.06**	$1.12

At December 31, 2014, the effect of the conversion of the convertible debentures was excluded from the diluted earnings per common share calculation as the impact was anti-dilutive. If the convertible debentures were included, an additional 17 million (2013: 23 million) common shares would be added to the weighted average number of common shares and $25 million (2013: $32 million) would be added to earnings, representing after tax interest expense of the convertible debentures.

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

22. PENSION PLAN

December 31 *($ millions)*	**2014**	2013
Registered defined benefit (asset) obligation	**12**	(5)
Supplemental defined benefit obligation	**8**	7
Other accrued benefit obligations	**1**	1
Net employee benefit obligations	**21**	3

The Company maintains a defined contribution plan and non-contributory defined benefit pension plans covering its employees. The Company contributes 5 to 10 percent of an employee's earnings to the defined contribution plan until the employee's age plus years of service equals 50, at which time they become eligible for the defined benefit plans. The defined benefit plans include a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. The Company also has other accrued benefit obligations which include a non-contribution unfunded post employment extended health and dental plan provided to a few remaining retired employees. The defined benefit plans are administered by a single pension fund that is legally separated from the Company. Benefits under the plans are based on the length of service and the annual average best three years of earnings during the last ten years of service of the employee. Benefits paid out of the plans are not indexed. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation was at December 31, 2014. The defined benefit plans expose the Company to actuarial risks such as longevity risk, interest rate risk, and market (investment) risk.

Defined benefit obligations

December 31	**2014**		2013	
($ millions)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Present value of unfunded obligations		**8**		7
Present value of funded obligations	**149**		119	
Total present value of obligations	**149**	**8**	119	7
Fair value of plan assets	**137**		124	
Recognized (liability) asset for defined benefit obligations	**(12)**	**(8)**	5	(7)

The Company funds the defined benefit obligation plans in accordance with government regulations by contributing to trust funds administered by an independent trustee. The funds are invested primarily in equities and bonds. Defined benefit plan contributions totalled $10 million for the year ended December 31, 2014 (2013: $13 million).

The Company has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements of the plans, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, no decrease in the defined benefit asset is necessary at December 31, 2014 and December 31, 2013.

Registered defined benefit pension plan assets comprise

December 31 *(percentages)*	**2014**	2013
Equity securities	**60**	64
Debt	**38**	35
Other	**2**	1
	100	100

Movement in the present value of the defined benefit pension obligation

Year Ended December 31	**2014**		2013	
($ millions)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Defined benefits obligations at January 1	**119**	**7**	122	6
Benefits paid by the plan	**(6)**		(6)	
Current service costs	**8**		9	1
Interest expense	**6**		5	
Actuarial losses (gains) in other comprehensive income	**22**	**1**	(11)	
Defined benefit obligations at December 31	**149**	**8**	119	7

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

Year Ended December 31 *($ millions)*	**2014**	2013
Fair value of plan assets at January 1	**124**	100
Contributions paid into the plan	**10**	13
Benefits paid by the plan	**(6)**	(6)
Return on plan assets	**4**	12
Interest income	**6**	5
Fair value of registered plan assets at December 31	**138**	124

Expense recognition in earnings

Year Ended December 31 *($ millions)*	**2014**	2013
Registered Plan		
Current service costs	**8**	9
Interest on obligation	**6**	5
Expected return on plan assets	**(5)**	(4)
	9	10

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

Year Ended December 31 *($ millions)*	**2014**	2013
Registered Plan		
Operating expenses	**5**	5
General and administrative expense	**4**	5
	9	10

Expense recognized for the Supplemental Plan was less than $1 million for each of the years ended December 31, 2014 and 2013.

Actuarial gains and losses recognized in other comprehensive income

	2014			2013		
($ millions)	**Registered Plan**	**Supplemental Plan**	**Total**	Registered Plan	Supplemental Plan	Total
Balance at January 1	**(7)**	**(1)**	**(8)**	(25)	(1)	(26)
Remeasurements gain:						
Actuarial gain (loss) arising from						
Demographic assumptions				(2)		(2)
Financial assumptions	**(15)**		**(15)**	7		7
Experience adjustments	**(2)**		**(2)**	4		4
Return on plan assets excluding interest income	**3**		**3**	9		9
Recognized during the period after tax	**(14)**		**(14)**	18		18
Balance at December 31	**(21)**	**(1)**	**(22)**	(7)	(1)	(8)

Principal actuarial assumptions used:

December 31 (weighted average percent)	**2014**	2013
Discount rate	**4.0%**	4.9%
Future pension earning increases	**4.0%**	4.0%

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

December 31 *(years)*	**2014**	2013
Longevity at age 65 for current pensioners		
Males	**21.4**	21.3
Females	**23.9**	23.5
Longevity at age 65 for current member aged 45		
Males	**22.6**	22.4
Females	**24.9**	24.2

The calculation of the defined benefit obligation is sensitive to the discount rate, compensation increases, retirements and termination rates as set out above. An increase or decrease of the estimated discount rate of 4.0

percent by 100 basis points at December 31, 2014 is considered reasonably possible in the next financial year but would not have a material impact on the obligation.

The Company expects to contribute $9 million to the defined benefit plans in 2015.

23. SHARE-BASED PAYMENTS

At December 31, 2014, the Company has the following share-based payment arrangements:

Share option plan (equity settled)

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

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

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

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

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

Grant date share options granted to employees *(thousands of options, except as noted)*	**Number of options**	**Contractual life of options**
January 2, 2013	61	7 years
April 1, 2013	52	7 years
August 9, 2013	1,605	7 years
October 1, 2013	70	7 years
January 2, 2014	101	7 years
March 12, 2014	409	7 years
April 1, 2014	91	7 years
September 18, 2014	2,985	7 years
November 20, 2014	3,110	7 years

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

Long-term share unit award incentive plan[(1)]

Grant date PSUs to Officers, Non-Officers[(2)] and Directors *(thousands of units, except as noted)*	**Units**	**Contractual life of PSU**
January 1, 2013	292	3 years
January 1, 2014	227	3 years

PSUs vest on the third anniversary of the grant date. Actual PSUs awarded based on the trading value of the shares and performance of the Company.

Grant date RSUs to Officers, Non-Officers[2] and Directors *(thousands of units, except as noted)*	**Units**	**Contractual life of RSU**
January 1, 2013	285	3 years
January 1, 2014	256	3 years

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

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

(2) Non-Officers defined as senior selected positions within the Company.

Disclosure of share option plan

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

(thousands of options, except as noted)	**Number of Options**	**Weighted Average Exercise Price (dollars)**
Outstanding at December 31, 2012	3,532	$23.11
Granted	1,787	$32.17
Exercised	(887)	$19.08
Forfeited	(233)	$26.14
Outstanding at December 31, 2013	4,199	$27.65
Granted	6,696	$46.83
Exercised	(792)	$25.11
Forfeited	(343)	$39.23
Outstanding as at December 31, 2014	9,760	$40.60

As of December 31, 2014, the following options are outstanding:

(thousands of options, except as noted) Exercise Price *(dollars)*	Number outstanding at December 31, 2014	Options Exercisable	Weighted average remaining life
$14.84 – $19.99	322	322	2.41 years
$20.00 – $29.99	1,473	1,038	4.26 years
$30.00 – $39.99	1,942	402	5.61 years
$40.00 – $52.01	6,023		6.79 years
	9,760	1,762	

The weighted average share price at the date of exercise for share options exercised in the year ended December 31, 2014 was $45.32 (December 31, 2013: $33.12).

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

Share options granted

Year Ended December 31 *(dollars, except as noted)*	**2014**	2013
Weighted average		
Fair value at grant date	**4.77**	2.59
Share price at grant date	**47.32**	31.60
Exercise price	**46.83**	32.17
Expected volatility *(percent)*	**19.1**	20.6
Expected option life *(years)*	**3.67**	3.67
Expected annual dividends per option	**1.74**	1.65
Expected forfeitures *(percent)*	**7.8**	7.9
Risk-free interest rate (based on government bonds)*(percent)*	**1.3**	1.4

Disclosure of long-term share unit award incentive plan

The long-term share unit award incentive plan was valued using the reporting date market price of the Company's shares of $39.47 (December 31, 2013: $37.42). Actual payment may differ from amount valued based on market price and company performance.

Long-term share unit award incentive units granted

Year Ended December 31 *(thousands of share units)*	**2014**	2013
Number of share units granted	**482**	577

Employee expenses

Year Ended December 31 *($ millions)*	**2014**	2013
Share option plan, equity settled	**6**	3
Long-term share unit award incentive plan	**33**	31
Share-based payment expense	**39**	34
Total carrying amount of liabilities for cash settled arrangements	**52**	48
Total intrinsic value of liability for vested benefits	**29**	30

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Risk Management

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

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

Counterparty credit risk

Counterparty credit risk represents the financial loss the Company would experience if a counterparty to a financial instrument failed to meet its contractual obligations in accordance with the terms and conditions of the financial instruments with the Company. Counterparty credit risk arises primarily from the Company's cash and cash equivalents, trade and other receivables, and from counterparties to its derivative financial instruments. The carrying amount of the Company's cash and cash equivalents, trade and other receivables and derivative financial instruments represents the maximum counterparty credit exposure, without taking into account security held.

The Company manages counterparty credit risk through established credit management techniques, including conducting comprehensive financial and other assessments for all new counterparties and regular reviews of existing counterparties to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits and obtaining financial assurances where warranted. The Company utilizes various sources of financial, credit and business information in assessing the creditworthiness of a counterparty including external credit ratings, where available, and in other cases, detailed financial statement

analysis in order to generate an internal credit rating based on quantitative and qualitative factors. The establishment of counterparty exposure limits is governed by a Board of Directors designated counterparty exposure limit matrix which represents the maximum dollar amounts of counterparty exposure by debt rating that can be approved for a counterparty. The Company continues to closely monitor and reassess the creditworthiness of its counterparties, which has resulted in the Company reducing or mitigating its exposure to certain counterparties where it was deemed warranted and permitted under contractual terms.

Financial assurances may include guarantees, letters of credit and cash. Letters of credit are held on $41 million (December 31, 2013: $51 million) of the receivables balance.

Typically, the Company has collected its receivables in full and at December 31, 2014, 85 percent were current (2013: 86 percent). The Company has a general lien and a continuing and first priority security interest in, and a secured charge on, all of a shipper's petroleum in its custody. The risk of non-collection is considered to be low and no impairment of trade and other receivables has been made.

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

Liquidity risk

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

			Outstanding balances due by period			
December 31, 2014 *($ millions)*	Carrying Amount	Expected Cash Flows	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Trade payables and accrued liabilities	550	550	550			
Taxes payable	58	58	58			
Loans and borrowings	2,470	3,951	94	189	964	2,704
Convertible debentures	391	534	25	73	187	249
Dividends payable	49	49	49			
Derivative financial liabilities	117	117	44	7	66	
Operating and finance leases	745	745	55	145	153	392
Construction commitments	1,983	1,983	1,724	192	67	

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

Market risk

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

a. Commodity price risk

Pembina's Midstream business includes product storage, terminalling, hub services, and cross-commodity and product quality trading activities. These activities expose Pembina to certain risks including that Pembina may experience volatility in revenue due to fluctuations in commodity prices. Primarily, Pembina enters into contracts to purchase and sell crude oil at floating market prices. The prices of products that are marketed by Pembina are

subject to volatility as a result of such factors as seasonal demand changes, extreme weather conditions, general economic conditions, changes in crude oil markets and other factors. Pembina manages its risk exposure by balancing purchases and sales to lock-in margins. Notwithstanding Pembina's management of price and quality risk, marketing margins for crude oil can vary and have varied significantly from period to period. This variability could have an adverse effect on the results of Pembina's commercial Midstream business and its overall results of operations. To assist in effectively smoothing that variability inherent in this business, Midstream is investing in assets that have a fee-based revenue component, and is looking to expand this area going forward.

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

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

b. Foreign exchange risk

Pembina's commodity-related cash flows are subject to currency risk, primarily arising from the denomination of specific cash flows in U.S. dollars. Pembina responds to this risk using an active Risk Management Program to exchange foreign currency for domestic currency at a fixed rate.

c. Interest rate risk

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

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

	Carrying Amounts of Financial Liability	
December 31 *($ millions)*	**2014**	2013
Fixed rate instruments	**(1,964)**	(1,625)
Variable rate instruments	**(506)**	(46)
	(2,470)	(1,671)

Cash flow sensitivity analysis for variable rate instruments

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

December 31 *($ millions)*	**2014**	2013
	± 100 bp	± 100 bp
Variable rate instruments	**± 5**	± 1
Interest rate swap	**± 1**	
Earnings sensitivity (net)	**± 6**	± 1

Fair values

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

December 31	**2014**		2013	
($ millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets carried at fair value				
Derivative financial instruments	**52**	**52**	4	4
Financial assets carried at amortized cost				
Cash and cash equivalents	**53**	**53**	51	51
Trade and other receivables	**447**	**447**	434	434
	500	**500**	485	485
Financial liabilities carried at fair value				
Derivative financial instruments	**117**	**117**	120	120
Financial liabilities carried at amortized cost				
Trade payables and accrued liabilities	**550**	**550**	461	461
Taxes payable	**58**	**58**	38	38
Dividends payable	**49**	**49**	44	44
Loans and borrowings	**2,470**	**2,590**	1,671	1,764
Convertible debentures	**391**[(1)]	**592**	604[(1)]	859
	3,518	**3,839**	2,818	3,166

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

(2) The fair value of convertible debentures at December 31, 2013 was $859 million and not $633 million as previously disclosed.

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

Interest rates used for determining fair value

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

December 31 *(percents)*	**2014**	2013
Derivatives	**1.3% - 2.1%**	1.2% - 2.4%
Loans and borrowings	**2.7% - 4.8%**	1.7% - 5.0%

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

Fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices. Pembina obtains quoted market prices for its inputs from information sources including banks, Bloomberg Terminals and Natural Gas Exchange. All of Pembina's significant financial instruments carried at fair value are valued using Level 2 inputs.

The following table is a summary of the net derivative financial instrument liability:

	2014					2013				
December 31 *($ millions)*	**Current Asset**	**Non-Current Asset**	**Current Liability**	**Non-Current Liability**	**Total**	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	Total
Net derivative financial instruments liability	**51**	**1**	**(40)**	**(2)**	**10**	4		(6)	(3)	(5)
Interest rate			**(2)**	**(6)**	**(8)**			(3)	(5)	(8)
Foreign exchange			**(2)**		**(2)**			(1)		(1)
Conversion feature of convertible debentures (Note 14)				**(65)**	**(65)**				(99)	(99)
Redemption liability related to acquisition of subsidiary								(3)		(3)
Net derivative financial instruments (liability)	**51**	**1**	**(44)**	**(73)**	**(65)**	4		(13)	(107)	(116)

Sensitivity analysis

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

December 31, 2014 *($ millions)*		**+ Change**	**- Change**
Frac spread related			
Natural gas	(AECO +/- $0.25 per GJ)	1	(1)
NGL (includes propane, butane and condensate)	(Belvieu +/- U.S. $0.10 per gal)	(3)	3
Foreign exchange (U.S.$ vs. Cdn$)	(FX rate +/- $0.05)	(2)	2
Product margin			
Crude oil	(WTI +/- $2.50 per bbl)	(4)	4
NGL (includes condensate)	(Belvieu +/- U.S. $0.10 per gal)	6	(6)
Corporate			
Interest rate	(Rate +/- 50 basis points)	2	(2)
Power	(AESO +/- $5.00 per MW/h)	3	(3)
Conversion feature of convertible debentures	(Pembina share price +/- $0.50 per common share)	(2)	2

25. OPERATING LEASES

Leases as lessee

Operating lease rentals are payable as follows:

December 31 *($ millions)*	**2014**	2013
Less than 1 year	**50**	26
Between 1 and 5 years	**291**	206
More than 5 years	**392**	306
	733	538

The Company leases a number of offices, warehouses, vehicles and rail cars under operating leases. The leases run for a period of one to fifteen years, with an option to renew the lease after that date. The Company has sublet office space up to 2022 and has contracted sub-lease payments, shown net in the table above, of $56 million over the term.

26. CAPITAL MANAGEMENT

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

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

Pembina is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants as of December 31, 2014.

Note 16 of these financial statements shows the change in Share Capital for the year ended December 31, 2014.

27. GROUP ENTITIES

Significant subsidiaries

	Ownership Interest	
December 31 *(percentages)*	**2014**	2013
Pembina Pipeline	**100**	100
Pembina Gas Services Limited Partnership	**100**	100
Pembina Oil Sands Pipeline LP	**100**	100
Pembina Midstream Limited Partnership	**100**	100
Pembina NGL Corporation	**100**	100
Pembina Facilities NGL LP	**100**	100
Pembina Midstream Inc.	**100**	100
Pembina Infrastructure and Logistics LP	**100**	100
Pembina Empress NGL Partnership	**100**	100
Pembina Resource Services Canada	**100**	100
Pembina Resource Services (U.S.A.)	**100**	100
Pembina Prairie Facilities Ltd.[1]	**100**	

[1] Incorporated upon the acquisition of Vantage.

28. RELATED PARTIES

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

Key management personnel and director compensation

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

Compensation

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

Key management personnel compensation comprised:

Year Ended December 31 *($ millions)*	**2014**	2013
Short-term employee benefits	**5**	4
Share-based compensation and other	**8**	7
Total compensation of key management	**13**	11

Transactions

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

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

Post-employment benefit plans

Pembina has significant influence over the pension plans for the benefit of their respective employees.

Transactions

($ millions)		Transaction Value Year Ended December 31		Balance Outstanding As At December 31	
Post-employment benefit plan	Transaction	**2014**	2013	**2014**	2013
Defined benefit plan	Funding	**10**	13		

29. SUBSEQUENT EVENTS

Subsequent to the year-end, on February 2, 2015, Pembina closed an offering of $600 million of senior unsecured medium-term notes (the "Offering"). The Offering was conducted in two tranches consisting of $450 million in senior unsecured medium-term notes, series 5 having a fixed coupon of 3.54 percent per annum, paid semi-annually, and maturing on February 3, 2025, and $150 million through the re-opening of its 4.75 percent medium-term notes, series 3, due April 30, 2043. Net proceeds were used to reduce short-term indebtedness of the Company under its credit facilities, and will also be used to fund Pembina's capital program and for other general corporate purposes.

Subsequent to the Vantage Acquisition and year end, on February 10, 2015, the Company announced that it has entered into agreements to expand the Vantage pipeline system (the "Vantage Expansion") for an estimated capital cost of $85 million.

The Vantage Expansion entails increasing the Vantage Pipeline's mainline capacity from 40 mbpd to 68 mbpd through the addition of mainline pump stations and the construction of a new 80 km, 8-inch gathering lateral. The Vantage Expansion is supported by a long-term, fee-for-service agreement, with a substantial take-or-pay component, and the gathering lateral is underpinned by a fixed return on invested capital agreement. Subject to regulatory and environmental approvals, the Vantage Expansion is expected to be in-service in early-2016.

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CORPORATE INFORMATION

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Chartered Accountants
Calgary, Alberta

TRUSTEE, REGISTRAR & TRANSFER AGENT

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

STOCK EXCHANGE

Pembina Pipeline Corporation
Toronto Stock Exchange listing symbols for:
Common shares: PPL
Convertible debentures: PPL.DB.C, PPL.DB.E, PPL.DB.F
Preferred shares: PPL.PR.A, PPL.PR.C, PPL.PR.E, PPL.PR.G

New York Stock Exchange listing symbol for:
Common shares: PBA

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