UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

(Check One)

¨ Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934

or

x Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2012**

Commission file number **1-35563**

PEMBINA PIPELINE CORPORATION

(Exact name of registrant as specified in its charter)

Alberta, Canada	**4612**	**None**
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number (if applicable))	(I.R.S. Employer Identification Number (if Applicable))

Suite 3800, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1
(403) 231-7500
(Address and Telephone Number of Registrant's Principal Executive Offices)

DL Services Inc., Columbia Center, 701 Fifth Avenue, Suite 6100
(206) 903-8800
(Name, Address (Including Zip Code) and Telephone Number
(Including Area Code) of Agent For Service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	**Name of each exchange on which registered**
Common Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act. **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **None**

For annual reports, indicate by check mark the information filed with this Form:

x Annual Information Form x Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **293,226,473**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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FORM 40-F

Principal Documents

The following documents, filed as Exhibits 99.1, 99.2 and 99.3 to this Annual Report on Form 40-F of Pembina Pipeline Corporation ("Pembina"), are hereby incorporated by reference into this Annual Report on Form 40-F:

(a) Annual Information Form for the fiscal year ended December 31, 2012;

(b) Management's Discussion and Analysis for the fiscal year ended December 31, 2012; and

(c) Audited Consolidated Financial Statements for the fiscal year ended December 31, 2012. Pembina's Audited Consolidated Financial Statements included in this Annual Report on Form 40-F have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. Therefore, they are not comparable in all respects to financial statements of United States companies that are prepared in accordance with United States generally accepted accounting principles.

ADDITIONAL DISCLOSURE

Certifications and Disclosure Regarding Controls and Procedures.

(a) Certifications. See Exhibits 99.4, 99.5, 99.6 and 99.7 to this Annual Report on Form 40-F.

(b) Disclosure Controls and Procedures. As of the end of Pembina's fiscal year ended December 31, 2012, an evaluation of the effectiveness of Pembina's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was carried out by Pembina's management, with the participation of its principal executive officer and principal financial officer. Based upon that evaluation, Pembina's principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, Pembina's disclosure controls and procedures are effective to ensure that information required to be disclosed by Pembina in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (the "Commission") rules and forms and (ii) accumulated and communicated to Pembina's management, including its principal executive officer and principal financial officers, to allow timely decisions regarding required disclosure.

It should be noted that while Pembina's principal executive officer and principal financial officer 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 or internal control over financial reporting 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.

(c) Management's Annual Report on Internal Control Over Financial Reporting. This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of Pembina's registered public accounting firm due to a transition period established by rules of the Commission for newly public companies.

(d) Attestation Report of the Registered Public Accounting Firm. This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of Pembina's registered public accounting firm due to a transition period established by rules of the Commission for newly public companies.

(e) Changes in Internal Control Over Financial Reporting. During the fiscal year ended December 31, 2012, there were no changes in Pembina's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Pembina's internal control over financial reporting.

Notices Pursuant to Regulation BTR.

None.

Audit Committee Financial Expert.

Pembina's board of directors has determined that David M.B. LeGresley, a member of Pembina's audit committee, qualifies as an "audit committee financial expert" (as such term is defined in Form 40-F) and is "independent" as that term is defined in the rules of the New York Stock Exchange.

Code of Ethics.

Pembina has adopted a Code of Ethics that meets the definition of a "code of ethics" set forth in Form 40-F, and that applies to Pembina's principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions.

The Code of Ethics is available for viewing on Pembina's website at www.pembina.com, and is available in print to any shareholder who requests it. Requests for copies of the Code of Ethics should be made by contacting: Investor Relations by phone at (855) 880-7404 or by e-mail at investor-relations@pembina.com.

Since the date on which Pembina became subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, there have not been any amendments to, or waivers, including implicit waivers, granted from, any provision of the Code of Ethics.

If any amendment to the Code of Ethics is made, or if any waiver from the provisions thereof is granted, Pembina may elect to disclose the information about such amendment or waiver required by Form 40-F to be disclosed, by posting such disclosure on Pembina's website, which may be accessed at www.pembina.com.

Principal Accountant Fees and Services.

The required disclosure is included under the heading "Audit Committee Information–External Auditor Service Fees" in Pembina's Annual Information Form for the fiscal year ended December 31, 2012, filed as Exhibit 99.1 to this Annual Report on Form 40-F.

Pre-Approval Policies and Procedures.

(a) Pembina's full audit committee pre-approves all audit and non-services provided to Pembina by its external auditor, KPMG LLP.

(b) Of the fees reported in Exhibit 99.1 to this Annual Report on Form 40-F under the heading "Audit Committee Information–External Auditor Service Fees", none of the fees billed by KPMG LLP were approved by Pembina's audit committee pursuant to the *de minimis* exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Off-Balance Sheet Arrangements.

Pembina does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Tabular Disclosure of Contractual Obligations.

The required disclosure is included under the heading "Contractual Obligations at December 31, 2012" in Pembina's Management's Discussion and Analysis for the fiscal year ended December 31, 2012, filed as Exhibit 99.2 to this Annual Report on Form 40-F.

Identification of the Audit Committee.

Pembina has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are: David M.B. LeGresley, Grant D. Billing , Randall J. Findlay and Allan L. Edgeworth .

Mine Safety Disclosure.

Not applicable.

New York Stock Exchange Disclosure.

Presiding Director at Meetings of Non-Management Directors

Pembina schedules regular executive sessions in which Pembina's "non-management directors" (as that term is defined in the rules of the New York Stock Exchange) meet without management participation. Mr. Lorne B. Gordon serves as the presiding director (the "Presiding Director") at such sessions. As of April 30, 2013, each of Pembina's non-management directors will be "independent" within the meaning of the rules of the New York Stock Exchange.

Communication with Non-Management Directors

Shareholders may send communications to Pembina's non-management directors by writing to Leslie A. O'Donoghue, Chair of the governance committee of the board of directors, c/o Investor Relations, Pembina Pipeline Corporation, 3800, 525 – 8th Avenue SW, Calgary, Alberta T2P 1G1. Communications will be referred to the Presiding Director for appropriate action. The status of all outstanding concerns addressed to the Presiding Director will be reported to the board of directors as appropriate.

Corporate Governance Guidelines

In accordance with Section 303A.09 of the NYSE Listed Company Manual, Pembina has adopted a set of corporate governance guidelines with respect to certain specified matters. Such guidelines are available for viewing on Pembina's website at www.pembina.com.

Board Committee Mandates

The Charters of Pembina's audit committee, human resources and compensation committee, health, safety and environment committee, and governance committee are each available for viewing on Pembina's website at www.pembina.com.

NYSE Statement of Governance Differences

As a Canadian corporation listed on the NYSE, Pembina is not required to comply with most of the NYSE corporate governance standards, so long as it complies with Canadian corporate governance practices. In order to claim such an exemption, however, Pembina must disclose the significant difference between its corporate governance practices and those required to be followed by U.S. domestic companies under the NYSE's corporate governance standards. Pembina has included a description of such significant differences in corporate governance practices on its website which may be accessed at www.pembina.com.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking.

Pembina undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process.

Pembina has concurrently filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name or address of the agent for service of process of Pembina shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of Pembina.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 1, 2013.

Pembina Pipeline Corporation

By: /s/ Robert B. Michaleski
Name: Robert B. Michaleski
Title: Chief Executive Officer

EXHIBIT INDEX

Exhibit	Description
99.1	Annual Information Form for the fiscal year ended December 31, 2012
99.2	Management's Discussion and Analysis for the fiscal year ended December 31, 2012
99.3	Audited Consolidated Financial Statements for the fiscal year ended December 31, 2012, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board
99.4	Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934
99.5	Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934
99.6	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
99.7	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
99.8	Consent of KPMG LLP

PEMBINA PIPELINE CORPORATION

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2012

March 1, 2013

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GLOSSARY OF TERMS

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

"**2010 Base Shelf Prospectus**" means the final short form base shelf prospectus filed with the securities commissions or similar regulatory authorities in each of the provinces of Canada on November 12, 2010 allowing the Corporation to offer and issue, from time to time: (i) Common Shares; (ii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of the Corporation ("**Debt Securities**"); (iii) warrants to purchase Common Shares and warrants to purchase Debt Securities; and (iv) subscription receipts of the Corporation (together with the foregoing, collectively, the "**Securities**") of up to $1,000,000,000 aggregate initial offering price of Securities (or the equivalent thereof in one or more foreign currencies or composite currencies, including United States dollars) during the 25 month period that the 2010 Base Shelf Prospectus was valid.

"**2010 Convertible Debentures**" means the 7.35 percent convertible unsecured subordinated debentures of Pembina issued June 11, 2003 which were traded on the TSX under the symbol "PPL.DB.B" and matured on December 31, 2010;

"**2013 Base Shelf Prospectus**" means the final short form base shelf prospectus filed with the securities commissions or similar regulatory authorities in each of the provinces of Canada on February 22, 2013 allowing the Corporation to offer and issue, from time to time: (i) Common Shares; (ii) preferred shares; (iii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of the Corporation ("**Debt Securities**"); (iv) warrants to purchase Common Shares and warrants to purchase Debt Securities; and (v) subscription receipts of the Corporation (together with the foregoing, collectively, the "**Securities**") of up to $3,000,000,000 aggregate initial offering price of Securities (or the equivalent thereof in one or more foreign currencies or composite currencies, including United States dollars) during the 25 month period that the 2013 Base Shelf Prospectus is valid.

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended from time to time, including the regulations promulgated thereunder;

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

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

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

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

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

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

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

"**Cenovus**" means Cenovus Energy Inc.;

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

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

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

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

"**Convertible Debentures**" means, collectively, the Series C Convertible Debentures, the Series E Convertible Debentures and the Series F Convertible Debentures;

"**Corporate Conversion**" means the plan of arrangement, under the provisions of section 193 of the ABCA, involving the Fund, the Corporation and the holders of Trust Units, pursuant to which the business of the Fund was reorganized into the Corporation effective October 1, 2010. See "*Corporate Structure – Corporate Conversion*";

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

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

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

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

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

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

"**DRIP**" means Pembina's Premium Dividend^{TM} and Dividend Reinvestment Plan which is comprised of the Fund DRIP and all associated agreements, which were assumed and amended and restated by the Corporation upon the completion of the Corporate Conversion effective October 1, 2010;

"**Encana**" means Encana Corporation;

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

"**Form 40-F**" means the Corporation's annual report on Form 40-F for the fiscal year ended December 31, 2012 filed with the SEC;

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

"**Fund DRIP**" means the Premium Distribution^{TM}, Distribution Reinvestment and Optional Unit Purchase Plan of the Fund;

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

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

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

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

"**Medium Term Note Indenture**" means the indenture dated March 29, 2011 between the Corporation, Pouce Coupé Pipe Line Ltd., Plateau Pipe Line Ltd., Alberta Oil Sands Pipeline Ltd., Pembina Pipeline (an Alberta partnership), Pembina North Limited Partnership, Pembina West Limited Partnership, Pembina Oil Sands Pipeline L.P., Pembina Marketing Ltd., Pembina Midstream Limited Partnership, Pembina Gas Services Ltd., Pembina Gas Services Limited Partnership and Computershare Trust Company of Canada, as supplemented by the first supplemental note indenture dated April 2, 2012 between the Corporation, Pembina NGL Corporation, 1598313 Alberta Ltd., Provident Infrastructure and Logistics LP, Provident Midstream Holdings GP ULC, Provident Midstream Inc., Provident GP Inc., Provident Facilities (NGL) Ltd., Provident Facilities (NGL) L.P., 1195714 Alberta Ltd., 1444767 Alberta Ltd., Provident Energy Pipeline Inc., Empress NGL Partnership, Kinetic Resources (LPG), Pro Holding Company, Provident Midstream (USA) Inc., Pro US LLC, Pro Midstream Company, Kinetic Resources (U.S.A.), Pro GP Corp., Pro LP Corp., Terraquest, Inc. and Computershare Trust Company of Canada, providing for the issuance of the Medium Term Notes;

"**Medium Term Notes**" means, collectively, the Medium Term Notes, Series 1 and the Medium Term Notes, Series 2;

"**Medium Term Notes, Series 1**" means the $250 million aggregate principal amount of medium term notes of the Corporation issued March 29, 2011 and mature on March 29, 2021 and which bear interest at a fixed rate of 4.89 percent per annum. See "*Description of the Capital Structure of the Corporation – Medium Term Notes*";

"**Medium Term Notes, Series 2**" means the $450 million aggregate principal amount of medium term notes of the Corporation issued October 22, 2012 and mature on October 24, 2022 and which bear interest at a fixed rate of 3.77 percent per annum. See "*Description of the Capital Structure of the Corporation – Medium Term Notes*";

"**Mitsue Pipeline**" means the pipeline system and related facilities that Pembina has constructed pursuant to the Mitsue TSAs and which consists of a combination of newly constructed and existing six inch and eight inch diameter pipeline and related facilities with a current design capacity up to 22,000 bpd, and a potential expansion capacity of up to 45,000 bpd (subject to confirmed customer support and regulatory approval for such expansion), of condensate transportation service for product received at Whitecourt, Alberta and delivered to Utikuma, Alberta for use as a diluent for heavy oil. See "*General Developments of Pembina – Developments in 2010 and 2011* ";

"**Mitsue TSAs**" means the transportation service agreements entered into among Pembina, Pembina Pipeline, Cenovus (formerly Encana), CNRL and Pembina Midstream Limited Partnership in respect of the Mitsue Pipeline. See "*General Developments of Pembina – Developments in 2010 and 2011*";

"**Musreau Deep Cut Facility**" has the meaning ascribed thereto under " *General Developments of Pembina – Developments in 2010 and 2011* ";

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

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

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

"**Nipisi Pipeline**" means the pipeline system and related facilities that Pembina has constructed pursuant to the Nipisi TSAs and which consists of a combination of newly constructed and existing 16 inch, 20 inch and 24 inch diameter pipeline and related facilities with a current design capacity of 100,000 bpd, and a potential expansion capacity of up to 200,000 bpd (subject to confirmed customer support and regulatory approval for such expansion), of blended heavy oil transportation service for product received at Utikuma, Alberta and delivered to Edmonton, Alberta. See "*General Developments of Pembina – Developments in 2010 and 2011* ";

"**Nipisi TSAs**" means the transportation service agreements entered into among Pembina, POSP Limited Partnership, Cenovus (formerly Encana), CNRL and Pembina Midstream Limited Partnership in respect of the Nipisi Pipeline. See "*General Developments of Pembina – Developments in 2010 and 2011*";

"**NGL**" means natural gas liquids, including ethane, propane, butane and condensate;

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

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

"**NYSE**" means the New York Stock Exchange;

"**Option Plan**" means the stock option plan for Pembina approved by the Shareholders on May 26, 2011 and, in respect of certain options granted prior to October 1, 2010, means the trust unit option plan of the Fund dated October 16, 1997, as amended January 27, 1999, April 30, 1999 and March 2, 2006;

"**Peace Pipeline**" means the pipeline system and related facilities delivering light crude oil, condensate, propane mix (C_{3+}) and ethane mix (C_{2+}) from northeastern British Columbia and northwestern Alberta to Edmonton, Alberta and to Fort Saskatchewan, Alberta;

"**Peace/Northern NGL System**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2010 and 2011*";

"**Pembina Nexus Terminal**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2010 and 2011* ";

"**Phase I Crude and Condensate Expansion** " has the meaning ascribed thereto under " *General Developments of Pembina – Developments in 2010 and 2011*";

"**Phase II Crude and Condensate Expansion** " has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2012*";

"**Phase I NGL Expansion**" has the meaning ascribed thereto under "*General Developments of Pembina – Developments in 2010 and 2011* ";

"**Phase II NGL Expansion**" has the meaning ascribed thereto under " *General Developments of Pembina – Developments in 2012*";

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

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

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

"**Provident Acquisition**" has the meaning ascribed thereto under " *Corporate Structure – Provident Acquisition*";

"**Provident Arrangement Agreement**" has the meaning ascribed thereto under " *Corporate Structure – Provident Acquisition*";

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

"**Resthaven Facility**" has the meaning ascribed thereto under " *General Developments of Pembina – Developments in 2010 and 2011* ";

"**Saturn Facility**" has the meaning ascribed thereto under " *General Developments of Pembina – Developments in 2010 and 2011* ";

"**SCADA**" means supervisory control and data acquisition. See " *Other Information Relating to Pembina's Business – Information and Communication Systems*";

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

"**SEC**" means the United States Securities and Exchange Commission;

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

"**Series A Senior Notes**" means the $175 million aggregate principal amount of unsecured senior notes of Pembina issued in June 2004 and due June 15, 2014 and which bear interest at a fixed rate of 5.99 percent per annum;

"**Series C Convertible Debentures**" means the 5.75 percent convertible unsecured subordinated debentures of Pembina issued November 24, 2010 and maturing November 30, 2020;

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

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

"**Series E Convertible Debentures**" means the 5.75 percent convertible unsecured subordinated debentures maturing December 31, 2017 issued by Provident on November 1, 2010 and assumed by Pembina in April 2012 pursuant to the Provident Acquisition;

"**Series F Convertible Debentures**" means the 5.75 percent convertible unsecured subordinated debentures maturing December 31, 2018 issued by Provident on April 29, 2011 and assumed by Pembina in April 2012 pursuant to the Provident Acquisition;

"**Shareholders**" means the holders of Common Shares;

"**Storage Agreement**" means the 20 year storage agreement entered into effective May 13, 2003 among the Storage LP, Dow Canada and NOVA Chemicals. See "*Risk Factors – Risks Inherent in Pembina's Business – Structural Integrity of the Storage Facility* ";

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

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

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

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

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

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

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

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

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

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

All dollar amounts set forth in this Annual Information Form are in Canadian dollars unless otherwise indicated. References to "$" or "C$" are to Canadian dollars and references to "US$" are to United States dollars. On February 28, 2013, the exchange rate based on the noon rate as reported by the Bank of Canada, was C$1.00 equals US$0.9723.

Except where otherwise indicated, all information in this Annual Information Form is presented as at the end of the Corporation's most recently completed financial year, being December 31, 2012.

NOTICE TO READER

Effective October 1, 2010, Pembina Pipeline Income Fund (the " **Fund**") and Pembina Pipeline Corporation (the " **Corporation**") completed the plan of arrangement pursuant to which all of the outstanding trust units of the Fund ("**Trust Units**") were converted into common shares of the Corporation. This resulted in the conversion of the Fund to a corporate entity, being the Corporation, which has continued as a successor issuer to the Fund (the "**Corporate Conversion**"). In this Annual Information Form, any references to " **Pembina**" when used in a historical context prior to October 1, 2010 refer to the Fund and its consolidated subsidiaries, and when used in the present tense, prospectively or for periods on or after October 1, 2010, those terms refer to Pembina Pipeline Corporation and its consolidated subsidiaries.

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

ABBREVIATIONS AND CONVERSIONS

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

bbl and bbls	barrel and barrels, each barrel representing 34.972 Imperial gallons or 42 US gallons
mmbbls	millions of barrels
bpd	barrels per day
mbpd	thousands of barrels per day
mcf	thousands of cubic feet
MMcf/d	million cubic feet per day
boe	barrels of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one bbl of oil
boe/d	barrels of oil equivalent per day
bcf/d	billion cubic feet per day
km	kilometres

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

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

To convert from	To	Multiply by
bbls	cubic metres	0.59
cubic meters	bbls	6.293
miles	kilometres	1.609
kilometres	miles	0.621

NON–GAAP MEASURES

The Corporation's audited consolidated financial information for the year ended December 31, 2012, which are incorporated herein by reference and may be found on the Corporation's company profile on the SEDAR website at www.sedar.com, and in the Corporation's annual report on Form 40-F filed on the Corporation's company profile on the EDGAR website at www.sec.gov, are presented in compliance with International Financial Reporting Standards ("**IFRS**"), which have converged with Canadian generally accepted accounting principles (" **GAAP**") effective for Pembina on January 1, 2010. Certain of the financial information included in such financial statements is contained within this Annual Information Form. Readers should also take note, however, that within this Annual Information Form the terms "earnings before interest, taxes, depreciation and amortization", "adjusted EBITDA", "adjusted earnings", "adjusted cash flow from operating activities", "operating margin" and "total enterprise value" are used to describe certain financial information of the Corporation and that these terms are not defined by GAAP.

The non-GAAP term "earnings before interest, taxes, depreciation and amortization" (" **EBITDA**") is commonly used by management of Pembina, investors and creditors in the calculation of ratios for assessing leverage and financial performance and is calculated as results from operating activities plus share of profit from equity accounted investees (before tax) plus depreciation and amortization (included in operations and general and administrative expense) and unrealized gains or losses on commodity-related derivative financial instruments. The non-GAAP term "adjusted EBITDA" is EBITDA excluding acquisition-related expenses in connection with the Provident Acquisition.

The non-GAAP term "adjusted earnings" is commonly used by management of Pembina for assessing and comparing financial performance each reporting period and is calculated as earnings before tax excluding unrealized gains or losses on derivative financial instruments and acquisition-related expenses in connection with the Provident Acquisition plus share of profit from equity accounted investees (before tax).

The non-GAAP term "adjusted cash flow from operating activities" is commonly used by management of Pembina for assessing financial performance each reporting period and is calculated as cash flow from operating activities plus the change in non-cash working capital and excluding acquisition-related expenses in connection with the Provident Acquisition.

The non-GAAP term "operating margin" is commonly used by management of Pembina for assessing financial performance and is calculated as gross profit before depreciation and amortization included in operations and unrealized gain (loss) on commodity-related derivative financial instruments.

The non-GAAP term "total enterprise value", in combination with other measures, is used by management of Pembina and the investment community to assess the overall market value of the business. Total enterprise value is calculated based on the market value of common shares and convertible debentures at a specific date plus senior debt.

Management of Pembina believes these supplemental non-GAAP measures facilitate the understanding of Pembina's results from operations, leverage, liquidity and financial positions. Readers should be cautioned that EBITDA, adjusted EBITDA, adjusted earnings, adjusted cash flow from operating activities, operating margin and total enterprise value should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of Pembina's performance. Furthermore, these non-GAAP measures may not be comparable to similar measures presented by other issuers.

For more information with respect to financial measures which have not been defined by GAAP, see the " *Non–GAAP Measures*" section of the Corporation's management's discussion and analysis for the year ended December 31, 2012, which has been filed on the Corporation's SEDAR profile at www.sedar.com and in the Corporation's annual report on Form 40-F filed on the Corporation's EDGAR profile at www.sec.gov.

FORWARD–LOOKING STATEMENTS AND INFORMATION

Certain statements contained in this Annual Information Form constitute "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "**forward-looking statements**"). All forward-looking statements are based on Pembina's current expectations, estimates, projections, beliefs and assumptions based on information available at the time the statement was made and in light of its experience and its perception of historical trends. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan", "intend", design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential", "could", "envisions", "aimed", "would" and similar expressions are intended to identify forward-looking statements. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Pembina believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

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

- the future levels of cash dividends that Pembina intends to pay to its Shareholders;
- capital expenditure-estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, gas service facilities, fractionation facilities, terminalling, storage and hub facilities and other facilities or energy infrastructure, including, but not limited to, in relation to the PNT, the proposed Resthaven Facility and the proposed Saturn Facility, the proposed expansion plans to strengthen Pembina's transportation service options that it provides to producers in Alberta, the expansion of throughput capacity on the Peace/Northern NGL System and Peace Pipeline, the proposed expansion of a number of existing truck terminals and construction of new full-service terminals, the installation of two remaining pump stations on the Nipisi and Mitsue pipelines, the development of fee-for-service storage facilities at Redwater, the proposed development of a C2+ fractionator at Redwater, and the potential offshore export opportunities for LPG;
- future expansion of Pembina's pipelines and other infrastructure;
- pipeline, processing and storage facility and system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- Pembina's strategy and the development of new business initiatives;
- growth opportunities;
- expectations regarding Pembina's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under government regulatory regimes including environmental regulations and related abandonment and reclamation obligations and Aboriginal consultation requirements;

- future general and administrative expenses at Pembina;
- increased throughput potential due to increased activity and new connections and other initiatives on Pembina's pipelines;
- future cash flows, potential revenue and cash flow enhancements across Pembina's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash dividends and the tax treatment thereof;
- operating risks (including the amount of future liabilities related to pipeline spills and other environmental incidents) and related insurance coverage and inspection and integrity programs;
- the expected capacity of the Resthaven Facility and the Saturn Facility currently under construction;
- expectations regarding in-service dates for new developments, including the Resthaven Facility, the Saturn Facility, the Peace/Northern NGL System and the Peace Pipeline expansions;
- expectations regarding incremental volumes and in-service dates of proposed expansions and new developments, including the Phase I and II NGL Expansions, the Phase I and II Crude and Condensate Expansions, and volumes resulting from new developments in Pembina's Gas Services business to be transported on Pembina's conventional pipelines;
- expectations regarding in-service dates for the fee-for-service storage facilities at Redwater and the proposed C_{2+} fractionator at Redwater;
- the possibility of offshore export opportunities for LPG;
- the possibility of renegotiating debt terms, repayment of existing debt, seeking new borrowing and/or issuing equity;
- expectations regarding participation in Pembina's DRIP;
- the expected impact of changes in share price on annual share-based incentive expense;
- expectations regarding the potential construction, expansion and conversion of downstream infrastructure in the US Midwest and Gulf Coast;
- inventory and pricing levels in the North American liquids market;
- Pembina's discretion to hedge natural gas and NGL volumes; and
- competitive conditions.

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:

- the success of Pembina's operations;

- prevailing commodity prices 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, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs;
- geotechnical and integrity costs associated with the Western Pipeline;
- in respect of the proposed Saturn Facility and the proposed Resthaven Facility and their estimated in-service dates of fourth quarter of 2013 and the third quarter of 2014, respectively; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts or the completion of such facilities; that such facilities will be fully supported by long-term firm service agreements accounting for the entire designed throughput at such facilities at the time of such facilities' completion; that there are no unforeseen construction costs related to the facilities; that there are no unforeseen delays arising from the Aboriginal consultation process; and that there are no unforeseen material costs relating to the facilities which are not recoverable from customers;
- in respect of the expansion of NGL throughput capacity on the Peace/Northern NGL System and the crude and condensate throughput capacity on the Peace Pipeline and the estimated in-service dates with respect to the same; that Pembina will receive regulatory approval; that Pembina will secure adequate customer support; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs related to the expansion; that there are no unforeseen delays arising from the Aboriginal consultation process; and that there are no unforeseen material costs relating to the pipelines that are not recoverable from customers;
- in respect of the proposed C_{2+} fractionator at Redwater; that Pembina will receive regulatory approval; that Pembina will reach satisfactory long-term arrangements with customers; that counterparties will comply with such contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs; that there are no unforeseen delays arising from the Aboriginal consultation process; and that there are no unforeseen material costs relating to the proposed fractionators that are not recoverable from customers;
- in respect of other developments, expansions and capital expenditures planned, including the proposed expansion of a number of existing truck terminals and construction of new full-service terminals, the expectation of additional NGL and crude volumes being transported on the conventional pipelines, the proposed expansion plans to strengthen Pembina's transportation service options that it provides to producers developing the Cardium oil formation located in central Alberta, the installation of two remaining pump stations on the Nipisi and Mitsue pipelines, the development of fee-for-service storage facilities at Redwater and that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs; and that there are no unforeseen material costs relating to the developments, expansions and capital expenditures which are not recoverable from customers;
- the future exploration for and production of oil, NGL and natural gas in the capture area around Pembina's conventional and midstream assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;

- in respect of the stability of Pembina's dividend; prevailing commodity prices, margins, volumes 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; and

- prevailing regulatory, tax and environmental laws and regulations.

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

- the regulatory environment and decisions and Aboriginal consultation requirements;

- the impact of competitive entities and pricing;

- labour and material shortages;

- reliance on key alliances and agreements;

- the strength and operations of the oil and natural gas production industry and related commodity prices;

- non-performance or default by counterparties to agreements which 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;

- the failure to realize the anticipated benefits of the Provident Acquisition; and

- the failure to complete remaining integration of the businesses of Pembina and Provident.

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.

CORPORATE STRUCTURE

Name, Address and Formation

Pembina Pipeline Corporation is a corporation amalgamated under the ABCA. It is the successor to the Fund following the completion of the reorganization of the Fund from an income trust structure to a corporate structure by way of the Corporate Conversion on October 1, 2010. The Corporation's principal and registered office is located at Suite 3800, 525 - 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

Corporate Conversion

The Corporate Conversion was completed on October 1, 2010 and involved, among other things, the exchange on a one-for-one basis, of all outstanding Trust Units for Common Shares. In accordance with the terms of the Corporate Conversion, the Fund was dissolved and, through a series of steps, the Corporation acquired all of the assets of the Fund and assumed all of the liabilities of the Fund.

The Corporation's Common Shares commenced trading on the TSX under the trading symbol "PPL" on October 5, 2010.

Provident Acquisition

On January 15, 2012, Pembina and Provident entered into an arrangement agreement (the " **Provident Arrangement Agreement**") pursuant to which Pembina agreed to acquire all of the outstanding Provident Shares by way of a plan of arrangement under the *Business Corporations Act* (Alberta) (the "**Provident Acquisition**"). The Provident Acquisition was completed on April 2, 2012. Holders of Provident Shares received 0.425 of a Common Share for each Provident Share held for a total consideration of 116,535,750 Pembina Common Shares. Under the Provident Acquisition, Pembina assumed all of the rights and obligations of Provident relating to the Series E Convertible Debentures and the Series F Convertible Debentures, which received a supplemental listing on the TSX under the symbols "PPL.DB.E" and "PPL.DB.F", respectively. See "*Description of the Capital Structure of the Corporation – Convertible Debentures* ".

In connection with the Provident Acquisition, the Common Shares were listed and began trading on the NYSE under the symbol "PBA" on April 2, 2012 and the Provident Shares were delisted from the NYSE.

Pursuant to the Provident Acquisition, Provident amalgamated with a wholly-owned subsidiary of Pembina and continued under the name "Pembina NGL Corporation". The acquired business forms a part of the Midstream business of Pembina.

In connection with the closing of the Provident Acquisition, Pembina's Revolving Credit Facility was increased from $800 million to $1.5 billion for a term of five years. See "*Description of the Capital Structure of the Corporation – Credit Facilities* ".

For a further description of the Provident Acquisition, please refer to the business acquisition report of the Corporation dated May 1, 2012, a copy of which was filed on the Corporation's SEDAR profile at www.sedar.com and on EDGAR at www.sec.gov.

Pembina's Subsidiaries

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

Principal Subsidiaries	Jurisdiction of Incorporation/Organization	Ownership
Pouce Coupé Pipe Line Ltd.	Canada (Federal)	100%
Plateau Pipe Line Ltd.	Alberta	100%
Alberta Oil Sands Pipeline Ltd.	Alberta	100%
Pembina Marketing Ltd.	Alberta	100%
Pembina Gas Services Ltd.	Alberta	100%
Pembina Pipeline	Alberta	100%
Pembina West Limited Partnership	Alberta	100%
Pembina North Limited Partnership	Alberta	100%
Pembina Oil Sands Pipeline L.P.	Alberta	100%
Pembina Midstream Limited Partnership	Alberta	100%
Pembina Gas Services Limited Partnership	Alberta	100%
Pembina NGL Corporation (formerly Provident Energy Ltd.)	Alberta	100%
Pembina Facilities NGL LP (formerly Provident Facilities (NGL) LP)	Alberta	100%
Pembina Empress NGL Partnership (formerly Empress NGL Partnership)	Alberta	100%
Pembina Resource Services Canada (formerly Kinetic Resources (LPG))	Alberta	100%
Pembina Infrastructure and Logistics LP (formerly Provident Infrastructure and Logistics LP)	Alberta	100%
Three Star Trucking Ltd.	Saskatchewan	66 2/3%
Pembina Resource Services (U.S.A.) (formerly Kinetic Resources (U.S.A.))	Michigan, US	100%

Amended Articles

On March 27, 2012, Pembina filed articles of amendment under the ABCA to increase the maximum number of directors of Pembina from nine to eleven after receiving Shareholder approval for such amendment.

GENERAL DEVELOPMENTS OF PEMBINA

During the three-year period ending on December 31, 2012, and 2013 year-to-date Pembina continued to execute its business plan and advance its growth strategy as discussed below.

Developments in 2010 and 2011

2010	March	Announced the Board of Directors approved the conversion of the Fund into a corporation.
2010	October	Pembina completed the Corporate Conversion pursuant to which the business of the Fund was reorganized into the Corporation effective October 1, 2010. See "*Corporate Structure – Corporate Conversion*".
2010	November	Pembina secured an anchor contract with Encana for the construction of an enhanced NGL extraction facility at its Cutbank Complex's Musreau Gas Plant as well as a 10-km pipeline to deliver the incremental NGL to the Peace Pipeline (the "**Musreau Deep Cut Facility**") and initiated construction of the Musreau Deep Cut Facility.
2010	November	On November 12, 2010, Pembina filed the 2010 Base Shelf Prospectus with the securities commissions or similar regulatory authorities in each of the Provinces of Canada, which 2010 Base Shelf Prospectus allowed the Corporation to offer and issue, from time to time securities of up to $1,000,000,000 aggregate initial offering price of securities (or the equivalent thereof in one or more foreign currencies or composite currencies, including United States dollars) during the 25 month period that the 2010 Base Shelf Prospectus was valid.
2010	November	On November 24, 2010, Pembina issued and sold $250 million of Series C Convertible Debentures under the 2010 Base Shelf Prospectus. See "*Description of the Capital Structure of the Corporation – Convertible Debentures* ".
2010	December	The 2010 Convertible Debentures matured on December 31, 2010.
2011	January	Pursuant to the acquisition that closed on January 7, 2011 with an effective date retroactive to December 31, 2010, Pembina Midstream Limited Partnership acquired terminalling and storage facilities in the Edmonton, Alberta area from Gibson Energy Partnership for an aggregate purchase price of approximately $57 million, which assets form an integral part of the terminal connecting key infrastructure in the Edmonton-Fort Saskatchewan-Namao, Alberta area (the "**Pembina Nexus Terminal**" or "**PNT**").
2011	March	On March 29, 2011, the Corporation issued and sold $250 million aggregate principal amount of Medium Term Notes, Series 1 pursuant to a pricing supplement under its 2010 Base Shelf Prospectus as supplemented by a prospectus supplement thereto dated March 16, 2011. The Corporation used the net proceeds from the sale of the Medium Term Notes, Series 1 to partially repay the existing credit facilities at that time and to fund organic growth opportunities. See "*Description of the Capital Structure of the Corporation – Medium Term Notes* ".
2011	August	Pembina announced the completion and start-up of the Nipisi Pipeline and Mitsue Pipeline which service the Pelican and Peace River heavy oil regions of Alberta. The Nipisi TSAs and Mitsue TSAs provide for committed ship-or-pay throughput on the Nipisi Pipeline and Mitsue Pipeline by the shippers for an initial 10 year term from the in-service date, with extension rights. In addition, the Nipisi Pipeline can be expanded to an ultimate capacity of approximately 200,000 bpd while the Mitsue Pipeline can be expanded to a capacity of approximately 45,000 bpd with additional capital and subject to contractual arrangements with customers.

2011 October Pembina announced on October 13, 2011 plans to further expand its gas handling assets in the Deep Basin in west central Alberta. Pembina entered into agreements to develop a combined shallow cut and deep cut NGL extraction facility (the "**Resthaven Facility**") by modifying and expanding an existing gas plant. Once operational, the initial phase of the Resthaven Facility will have a gross capacity of 200 MMcf/d (130 MMcf/d net to Pembina) and 13,000 bpd of NGL extraction capability. Pembina also plans to construct a new NGL pipeline to transport the extracted NGL from the Resthaven Facility to the Peace Pipeline.

Once completed, Pembina will own approximately 65 percent of the Resthaven Facility and will own 100 percent of the NGL pipeline. The estimated cost of the Resthaven Facility, associated NGL pipeline and storage facilities is approximately $230 million and is expected to be in-service in the third quarter of 2014. The Resthaven Facility is supported by long-term firm service agreements with two of the major area producers with the associated NGL pipeline is underpinned by long-term service agreements with the Resthaven Facility owners.

2011 October Pembina announced on October 28, 2011 plans to construct a new enhanced NGL extraction facility (the " **Saturn Facility**") in the Berland area of Alberta. The Saturn Facility will be connected to Talisman Energy Inc.'s Wild River and Bigstone gas plants through existing and newly constructed gas gathering lines. Once operational, the Saturn Facility will have a gross capacity of 200 MMcf/d and 13,500 bpd of NGL extraction capability. Pembina also plans to construct an 83 km, 8-inch NGL pipeline to transport the extracted NGL from the Saturn Facility to the Peace Pipeline.

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

2011 November On November 9, 2011, Pembina announced plans to expand its NGL pipeline transportation capacity on its Peace Pipeline and Northern Pipeline (collectively, the "**Peace/Northern NGL System**") by 52,000 bpd (the " **Phase I NGL Expansion**"). The Phase I NGL Expansion will require the installation of five new pump stations and the upgrade five existing stations.

2011 December Pembina announced plans to expand it crude and condensate throughput capacity on its Peace Pipeline by 40,000 bpd (the "**Phase I Crude and Condensate Expansion** "). The Phase I Crude and Condensate Expansion will require the upgrading of two existing pump stations.

Developments in 2012

2012 January The Corporation announced that it had entered into an agreement for Pembina to acquire all of the issued and outstanding common shares of Provident by way of a plan of arrangement under the Business Corporations Act (Alberta) to create an integrated company that will be a leading player in the North American energy infrastructure sector.

2012	January	The Corporation reinstated the DRIP effective as of the January 25, 2012 record date and the corresponding dividend was paid on February 15, 2012. The DRIP was reinstated to help fund Pembina's ongoing capital program. See "*Description of the Capital Structure of the Corporation – Premium Dividend*^{TM} *and Dividend Reinvestment Plan".*
2012	February	Mick Dilger was appointed to the position of President and Chief Operating Officer, effective February 15, 2012.
2012	February	The construction on the Musreau Deep Cut Facility, including a new 205 MMcf/d NGL extraction facility and the related 10 km NGL sales pipeline connected to the Peace Pipeline, was completed in 2011 and commissioning of the Musreau Deep Cut Facility occurred on February 15, 2012. In March, the Musreau Deep Cut Facility experienced an unplanned outage due to issues with a gearbox. It was placed back into service on September 2, 2012.
2012	March	Pembina entered into a new unsecured revolving credit facility of $800 million with a syndicate of Canadian banking institutions for a term of 5 years. Pembina increased the facility to $1.5 billion on closing the Provident Acquisition. See "*Description of the Capital Structure of the Corporation – Credit Facilities* ".
2012	March	The BCUC approved the terms of new 5-year transportation agreements negotiated between Pembina and the Western Pipeline shippers. In addition to allowing Pembina to earn a reasonable rate of return, the new contracts allow for direct flow through of all operating costs including upgraded integrity management program costs.
2012	April	The Provident Acquisition was completed effective April 2, 2012; the Common Shares were listed on the NYSE under the symbol "PBA"; and Pembina increased the monthly dividend by 3.8 percent (from $0.13 per share per month to $0.135). See "*Corporate Structure – Provident Acquisition*" and " *Description of the Capital Structure of the Corporation – Convertible Debentures*".
2012	April	In July 2002, the Corporation issued $100 million aggregate principal amount of senior secured notes due 2017 and bearing interest at 7.38 percent per annum on a private placement basis, which were redeemed by the Corporation on April 30, 2012.
2012	May	Expanded the capacity on the Drayton Valley Pipeline by completing the refurbishing of the Calmar booster station which resulted in an additional 50,000 bpd and increased system capacity to approximately 190,000 bpd.
2012	September	Completed and commissioned an 8,000 bpd expansion at the Redwater fractionator.
2012	September	Brought a fee-for-service cavern storage facility on stream at Redwater.
2012	September	The expansion of the Musreau Gas Plant's shallow cut gas processing capability by 50 MMcf/d was completed in August 2012 and was placed into service on September 13, 2012. Pembina has entered into contracts with a minimum term of five years with area producers for the entire capacity of the expansion on a fee-for-service basis.
2012	October	On October 22, 2012, the Corporation issued and sold $450 million aggregate principal amount of Medium Term Notes, Series 2 pursuant to a pricing supplement under its 2010 Base Shelf Prospectus as supplemented by a prospectus supplement thereto dated October 17, 2012. The notes have a fixed interest rate of 3.77 percent per annum, paid semi-annually, and will mature on October 24, 2022. The Corporation used the net proceeds from the sale of the Medium Term Notes, Series 2 to repay a portion of the Corporation's existing Credit Facilities. See "*Description of the Capital Structure of the Corporation – Medium Term Notes*".

2012 October Construction started on a joint venture full-service terminal in the Judy Creek, Alberta area which will focus on emulsion treating (separating oil from impurities to meet shipping quality requirements), produced water handling and water disposal. The estimated project completion date is April 2013.

2012 October Pembina commenced construction on the Saturn Facility and Resthaven Facility.

2012 November Pembina commenced developing plans for 73,000 bpd C2+ fractionator at Redwater and investigating offshore export opportunities for propane.

2012 November Announced plans to significantly expand NGL, crude oil and condensate throughput capacity on the Peace Pipeline and Peace/Northern NGL System. The total cost of the projects is anticipated to be approximately $545 million plus approximately $125 million of additional capital to tie in producers to both the expanded systems. Expansion plans include increasing crude and condensate capacity on the Peace Pipeline by 55,000 bpd by late-2014 (the "**Phase II Crude and Condensate Expansion**") and the increasing NGL capacity on the Peace/Northern NGL System by 53,000 bpd by early to mid-2015 (the "**Phase II NGL Expansion**").

2013 Year to Date Developments

2013 February On February 22, 2013, Pembina filed the 2013 Base Shelf Prospectus with the securities commissions or similar regulatory authorities in each of the Provinces of Canada, which 2013 Base Shelf Prospectus allows the Corporation to offer and issue from time to time securities of up to $3,000,000,000 aggregate initial offering price (or the equivalent thereof in one or more foreign currencies or composite currencies, including United States dollars) during the 25 month period that the 2013 Base Shelf Prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of the sale and set forth in one or more shelf prospectus supplements.

2013 February Pembina announced it reached its contractual threshold to proceed with its previously announced Phase II Crude and Condensate Expansion to significantly expand its crude oil and condensate throughout capacity on its Peace Pipeline by 55,000 bpd. Pembina expects the total cost of Phase II Crude and Condensate Expansion to be approximately $250 million (including the mainline expansion and tie-ins). Subject to obtaining regulatory and environmental approvals and Aboriginal and stakeholder consultation, Pembina anticipates being able to bring the expansion into service by late-2014. Once complete, this expansion will increase capacity on the Peace Pipeline to 250,000 bpd. The Phase II Crude and Condensate Expansion is underpinned by long-term fee-for-service agreements with area producers. The combination of the Phase I and Phase II Crude and Condensate Expansions will increase capacity by 61 percent from current levels.

DESCRIPTION OF PEMBINA'S BUSINESS AND OPERATIONS

Pembina's Business Objective and Strategy

Pembina is a trusted member of the communities in which it operates and is committed to generating value for its investors by running its business 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 while enhancing the long-term value of its Common Shares. To achieve this, Pembina's strategy is to:

- Preserve value by providing safe, responsible, cost-effective and reliable services.
- Diversify Pembina'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.
- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

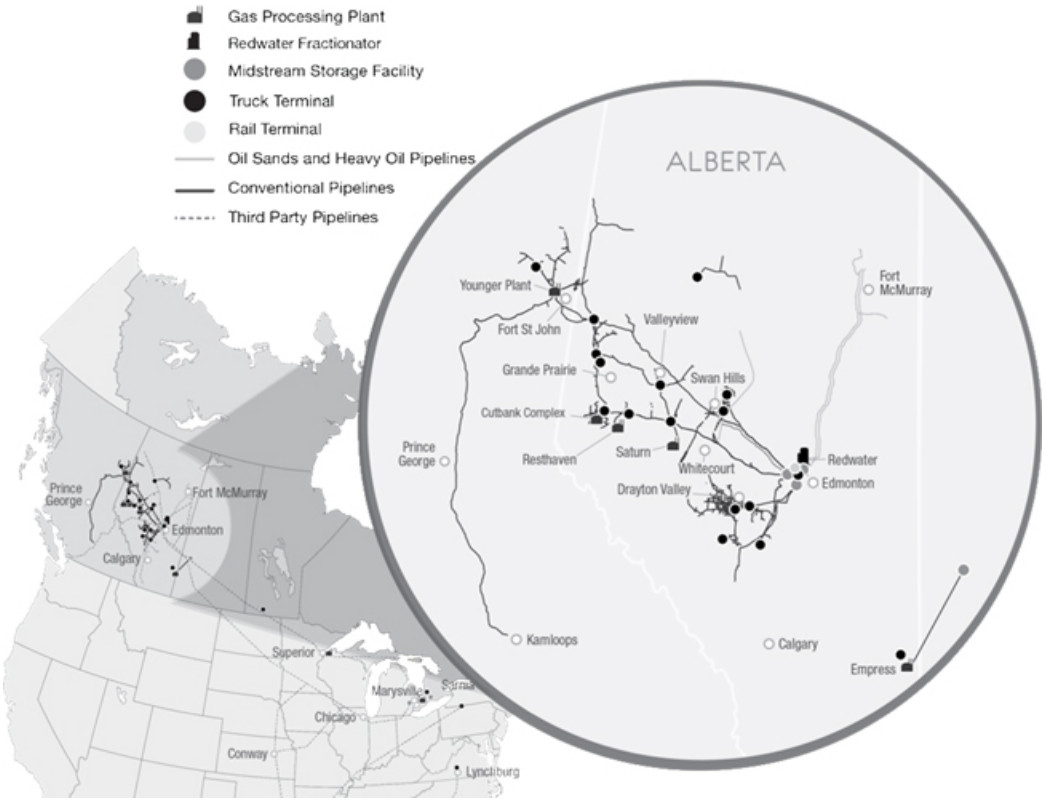
Overview of Pembina's Business

There are three general sectors in the oil and gas industry: "upstream", "midstream" and "downstream". The upstream sector encompasses exploration for and production of hydrocarbon liquids in their raw forms. In the midstream sector, hydrocarbon products are gathered, processed, transported and marketed to the downstream sector. The downstream sector consists of end-use customers, local distributers and wholesalers across North America.

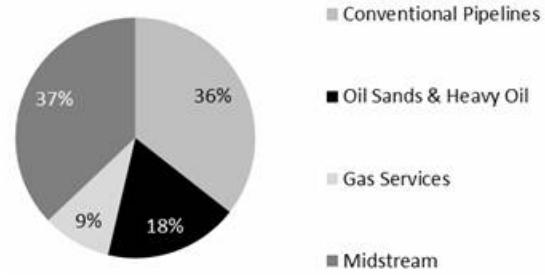
Pembina is a leading transportation and midstream service provider that has been serving North America's energy industry for nearly 60 years. Pembina owns and operates: pipelines that transport conventional and synthetic crude oil and natural gas liquids produced in western Canada; oil sands and heavy oil pipelines; gas gathering and processing facilities; and, an oil and natural gas liquids infrastructure and logistics business. With facilities strategically located in western Canada and in natural gas liquids 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. The business segments of Pembina are grouped for functional, geographic and accounting purposes into four categories, described in their respective sections: Conventional Pipelines; Oil Sands & Heavy Oil; Gas Services; and Midstream.

Operations Overview

The following map illustrates Pembina's assets:



The net revenue contribution from each of Pembina's four businesses in 2012 was divided as follows:



The following table sets forth certain operating highlights for 2012, 2011 and 2010.

Operating Highlights

(in $ millions unless otherwise noted)

	Conventional Pipelines			Oil Sands & Heavy Oil [2]			Gas Services			Midstream[3]			Total[5]		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Average throughput (*mbpd*)	456.3	413.9	374.0	870.0	870.0	775.0	275.2[4]	253.8[4]	220.5[4]	n/a	n/a	n/a	n/a	n/a	n/a
Net Revenue	338.8	296.2	261.6	172.4	134.9	118.4	88.3	71.5	61.5	352.9	101.1	55.1	952.4	603.7	496.6
Operating expenses	129.6	119.1	93.2	55.6	44.0	40.2	29.3	22.4	18.4	59.7	8.8	4.7	274.2	194.3	156.5
Realized gain (loss) on commodity-related derivative financial instruments	0.1	4.4	0.6	n/a	n/a	n/a	n/a	n/a	n/a	(4.7)	0.9	0.5	(4.6)	5.3	1.1
Operating margin[1]	209.3	181.5	169.0	116.8	90.9	78.2	59.0	49.1	43.1	288.5	93.2	50.9	673.6[5]	414.7[5]	341.2

Notes:

(1) See "*Non–GAAP Measures*" on page 8.

(2) Revenue is contract based and independent of utilization rates, therefore volumes reported are contracted capacity.

(3) Midstream revenue is net of $2,494.5 million in cost of goods sold, net of product purchases for 2012 (2011: $1,072.4 million).

(4) Average throughput for Gas Services is in MMcf/d. Average mboe/d processed in 2012 were 45.9 compared to 42.3 in 2011.

(5) Not including corporate recoveries of $2.6 million for 2012 (2011: $2.4 million).

Further discussion of operational results and new developments and outlook for Pembina's four businesses for the years ended December 31, 2012 and 2011 is contained in the section "Operating Results" in the Corporation's management's discussion and analysis for the year ended December 31, 2012, which section is incorporated by reference herein, an electronic copy of which is available on the Corporation's profile on the SEDAR website at www.sedar.com, and in the Corporation's annual report on Form 40-F filed on the EDGAR website at www.sec.gov, or at www.pembina.com.

Conventional Pipelines Business

Overview

Pembina's Conventional Pipelines business comprises a well-maintained and strategically located 7,850 km pipeline network that extends across much of Alberta and British Columbia. It transports approximately half of Alberta's conventional crude oil production, about thirty percent of the NGL produced in western Canada, and virtually all of the conventional oil and condensate produced in British Columbia. This business' primary objective is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue. Conventional Pipelines endeavours to maintain and/or improve operating margins by capturing incremental volumes, expanding its pipeline systems, managing revenue and adopting strong discipline relative to operating expenses.

Major Customers

There are approximately 50 shippers (including all major shippers of petroleum products in western Canada) on the conventional pipeline systems owned and operated by Pembina. The major delivery points include the Enbridge Pipeline system, the Express Pipeline system (Pembina does not deliver here directly), the Kinder Morgan North 40 terminal, the refineries in the Edmonton area as well as the NGL fractionators near Fort Saskatchewan, Alberta. Deliveries are also made to Husky Energy Inc.'s refinery in Prince George, British Columbia and to the TransMountain pipeline system owned by Kinder Morgan Canada Inc. at Kamloops, British Columbia and Edmonton, Alberta.

Contractual Arrangements

Pembina's Conventional Pipeline system generally operates on fee-for-service evergreen contracts, which continue in force until terminated by either party by providing prior notice to the other party (generally between one and six months prior notice).

For Pembina's expansion projects on its Conventional Pipelines, the Corporation has underpinned the Phase I NGL Expansion on the Peace/Northern NGL System by securing the majority of the existing capacity and all of the incremental additional capacity under long-term take-or-pay contracts. Pembina has also secured long-term contracts to underpin the Phase II Crude and Condensate Expansions on its Peace Pipeline.

Competitive Environment

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

Producer activity focused on NGL development continues to be strong in the Deep Basin Cretaceous, Montney and Duvernay resource plays served by Pembina's Peace and Northern systems. The deep Cretaceous sands and Duvernay resource plays are also beginning to emerge in the areas served by the Corporation's Brazeau/Caroline Pipeline.

The magnitude of potential volume growth in both crude oil and NGL production proportionately increases the risk of third-party projects to physically bypass Pembina's pipeline systems. The Peace and Brazeau/Caroline Pipelines are susceptible to new bypass projects due to the number and magnitude of potential new production developments; however, Pembina is working diligently to protect these service areas.

A delay in the development of downstream processing, transportation and end-user facilities may also impact the development and profitability of Pembina's Conventional Pipeline systems. The Edmonton, Alberta, area NGL fractionation capacity will need to be expanded to process the forecasted incremental NGL volumes. Alberta crude oil and NGL export transportation will require increased capacity to accommodate forecasted volumes from Pembina and third-party feeder pipeline systems. Limited ethylene cracking capacity may also dampen ethane demand and limit expansion of Pembina's NGL pipeline systems.

Pembina believes that it is well positioned to compete with other alternatives for transportation. In addition, Pembina has been active in attracting incremental volumes to its pipelines, expanding pipeline capacity and entering into long-term contracts with shippers and producers.

Other Information – Industry Regulations

The feeder pipeline industry in Alberta normally operates in an environment of unregulated tariffs. Once a permit to construct the pipeline is issued by the ERCB, subject to the licensing of operational matters or a common carrier declaration, the pipeline is free to establish tariffs in a competitive environment. Tariffs are established under contracts of varying terms and conditions and are also posted by location. Posted tariffs generally can be adjusted to respond to changing volumes, costs and market circumstances. Contracted tariffs can also be adjusted, where permitted by the terms of the contract, for such things as changes in power costs, municipal taxes, environmental, integrity and safety costs. Pipeline customers have recourse to the ERCB, with respect to pipeline access and discrimination among customers, if they can establish that the pipeline should be declared to be a common carrier. Once declared a common carrier, the ERCB has the authority to set rates for the pipeline. No pipeline owned by Pembina in the province of Alberta has ever been declared to be a common carrier. Tariffs for all of Pembina's Alberta pipelines are generally established to recover all costs and earn a reasonable rate of return on the investment in its pipelines.

In British Columbia the tariffs on the NEBC Pipeline and the Western Pipeline are regulated by the BCUC. The BCUC approves tariffs for common carriers and regulates others on a complaints basis.

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

Oil Sands & Heavy Oil Business

Overview

Pembina plays an important role in supporting Alberta's oil sands and heavy oil industry. Pembina's Oil Sands & Heavy Oil business owns and operates five pipelines that support oil sands and heavy oil producers operating near Fort McMurray, Alberta and Pelican Lake/Seal: the Syncrude Pipeline, the Cheecham Lateral, the Horizon Pipeline, the Nipisi Pipeline and the Mitsue Pipeline. The Oil Sands & Heavy Oil business operates approximately 1,650 km of pipeline and has 870 mbpd of capacity under long-term, extendible contracts which provide for the flow-through of operating expenses to customers. As a result, operating margin from this business is primarily related to invested capital and is not sensitive to fluctuations in operating expenses or actual throughput.

Major Customers

The major shippers on Pembina's oil sands, heavy oil and diluent pipelines are CNRL, Syncrude and Cenovus. Pembina's oil sands and heavy oil pipelines provide dedicated service under long-term contracts.

Contractual Arrangements

Pembina's Syncrude Pipeline has a capacity of 389,000 bpd and is fully contracted to the owners of Syncrude Canada Ltd. under a cost-of-service extendable, long-term agreement that expires at the end of 2035.

Pembina's Cheecham Lateral has a capacity of 136,000 bpd and is fully contracted to shippers under the terms of a 25-year fixed return agreement that expires in 2032.

The Horizon Pipeline is fully contracted to CNRL and has an ultimate capacity of 250,000 bpd. The Horizon Pipeline is operated under the terms of a 25-year fixed return extendable contract, which expires in 2033.

The Nipisi Pipeline and Mitsue Pipeline are contracted by CNRL, Cenovus and Pembina Midstream Limited Partnership under a 10 year fixed return agreement which commenced in 2011. This contract also has extension rights.

Competitive Environment

Despite weakness in crude oil differentials and export pipeline constraints, which have the potential to negatively impact development of oil sands and heavy oil reserves in the WCSB, the long-term outlook for crude oil pricing remains relatively strong. As such, producers are expected to continue to develop and execute oil sands and heavy oil projects. Consistent with the past few years, the industry is focused on shipping bitumen blend to market rather than upgrading the crude domestically. Consequently, Oil Sands & Heavy Oil will maintain its focus on expanding existing condensate and synthetic diluent infrastructure.

In this business, existing assets do not compete with other assets for pipeline throughputs and revenue as they are operated under long-term agreements. However, competition primarily arises with respect to new pipeline projects and cost of capital as Pembina would compete with other pipeline companies to bid for new construction projects. In some cases, existing pipeline companies have under-utilized assets which can be re-purposed to suit a customer's needs, which could give them a competitive advantage when bidding for new projects.

However, Pembina believes with its recent construction experience and operating expertise that it is in a favourable position to secure a share of the growth in oil sands transportation needs. Further, Pembina is confident in its abilities to attract incremental volumes to the Nipisi Pipeline and Mitsue Pipeline, as the Corporation continues to enhance its competitive advantage in the Nipisi area with respect to both tolls and services.

Gas Services Business

Overview

Pembina's operations include a growing natural gas gathering and processing business. Located approximately 100 km south of Grande Prairie, Alberta, Pembina's key revenue-generating Gas Services assets form the Cutbank Complex which comprises three sweet gas processing plants with 425 MMcf/d of processing capacity (368 MMcf/d net to Pembina), a 205 MMcf/d ethane plus extraction facility, as well as approximately 350 km of gathering pipelines. The Cutbank Complex is connected to Pembina's Peace Pipeline system and serves an active exploration and production area in the Western Canadian Sedimentary Basin. Pembina has initiated construction on two projects in its Gas Services business, the Saturn Facility and the Resthaven Facility, to meet the growing needs of producers in west central Alberta.

Major Customers

Gas Services has approximately 30 customers with a vast majority (greater than 80 percent) of its processed volumes being from a few large, independent and multi-national oil and gas companies. Gas Services processes customers' natural gas at Pembina's owned and operated Cutbank Complex and delivers the natural gas to the TransCanada pipeline system and the NGL to the Pembina-owned and operated Peace Pipeline system.

Contractual Arrangements

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

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

Over 88 percent of the capacity associated with the Cutbank Complex is on a firm service basis until 2014. Several of the firm service contracts incorporate a "take-or-pay" or "produce-or-pay" commitment which allows the processor to manage capacity utilization and revenue risk. In 2012, approximately 78 percent of revenue from the Cutbank Complex was derived from contracts containing "take-or-pay" commitments.

For the Saturn Facility and Resthaven Facility, Pembina has secured 100 percent of the operating capacity at each plant under long-term "take-or-pay" agreements.

Competitive Environment

Gas producers continue to shift their activities toward NGL development. NGL prices remain significantly more attractive than dry gas prices, making it economically viable to explore for NGL using horizontal drilling and completion technologies. Land positions are being amassed by producers in the Deep Basin/liquid-rich gas regions of British Columbia and Alberta, which continues to support Pembina's Gas Services expansion plans.

With its existing assets, the Corporation is able to process gas, extract valuable NGL from the gas and transport the NGL through its conventional pipelines to its fractionation facility at Fort Saskatchewan, Alberta, where it then is able to separate the component parts of the NGL stream for end-users. With this integrated service offering along the NGL value chain, Pembina believes it is strongly positioned compared to other NGL service providers.

Midstream Business

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

- Crude oil midstream targets oil and diluent-related opportunities from key sites across Pembina's network, which comprises 15 truck terminals (including one capable of emulsion treating and water disposal), terminalling at downstream hub locations, storage, and the PNT. PNT includes: 21 inbound pipelines connections, 13 outbound pipelines connections, in excess of 1.2 million bpd of crude oil and condensate throughput accessing the terminal, and 310,000 bbl of surface storage. With the current congestion on downstream pipelines, Pembina is pursuing opportunities to develop and service crude oil transportation by rail.

- NGL midstream, which Pembina acquired through the Provident Acquisition, includes two operating systems, Redwater West and Empress East:

    - The Redwater West NGL system includes the Younger extraction and fractionation facility in British Columbia; the recently expanded 73,000 bpd Redwater NGL fractionator, 6.8 mmbbls of cavern storage and terminalling facilities at Redwater, Alberta; and, third-party fractionation capacity in Fort Saskatchewan, Alberta.

    - The Empress East NGL system includes a 2.1 bcf/d interest in the straddle plants at Empress, Alberta; 20,000 bpd of fractionation capacity as well as 1.1 mmbbls of cavern storage in Sarnia, Ontario; and, approximately 5.0 mmbbls of hydrocarbon storage at Corunna, Ontario.

Crude Oil Midstream: Major Customers

Pembina's crude oil midstream customers are generally those who produce and/or market crude oil and condensate on Pembina's pipeline systems, are downstream markets for those volumes, or are interested in ancillary services related to those volumes. On Pembina's conventional pipelines, its crude oil midstream business is the 'single shipper'. These systems include the Peace, Swan Hills and Drayton Valley systems. On these systems, Pembina enters into simultaneous "buy/sell" agreements whereby the Corporation takes ownership of the product in transport from receipt point to delivery point.

At Pembina's truck terminals, the Corporation's customer base generally comprises the same group who provide throughout volumes to Pembina's conventional pipeline systems. Pembina's truck terminal network generally brings an average of 60,000 bpd onto the conventional pipelines.

Dow Canada and NOVA Chemicals are the principal customers of the Storage Facility.

Crude Oil Midstream: Contractual Arrangements

In certain of Pembina's crude oil midstream activities, customers sign master "buy/sell" agreements designating the Corporation as an approved service provider with pricing agreed upon prior to delivery of product or service provided. Certain of the Corporation's full-service terminals are constructed and operated under joint venture agreements with third-parties. In aggregate, the crude oil midstream business' broad service offerings leverage the value chain – focusing on services that complement the existing network of facilities and energy infrastructure across Pembina's asset base, including those recently acquired in the Provident transaction. All facilities and services provided by crude oil midstream are complimentary to one another and create synergies for the Corporation and its customers.

With respect to Pembina's Storage Facility, Dow Canada performs important functions for the Storage LP under an operating agreement and a facilities agreement, and NOVA Chemicals is the owner and operator of the ethylene delivery system, whose operations are essential to the operations of the Storage Facility.

PNT consists of three distinct assets connected by a network of proprietary and third-party pipelines. Key asset locations are the Fort Saskatchewan/Heartland areas with the NGL midstream facilities and bare land at Heartland with associated salt rights suitable for developing incremental crude oil and condensate storage, and the Edmonton location where most of Pembina's oil and condensate delivery systems terminate. PNT includes: 21 inbound pipelines connections, 13 outbound pipelines connections, in excess of 1.2 million bpd of crude oil and condensate throughput accessing the terminal, and 310,000 barrels of surface storage. With the current congestion on downstream pipelines, Pembina is pursuing opportunities to develop and service crude oil transportation by rail. Plans are underway to develop incremental storage and a truck terminal facility at the Edmonton site and rail in the Fort Saskatchewan/Heartland area.

NGL Midstream: Major Customers

Pembina's NGL midstream business extracts, processes, stores, transports and markets NGL and offers these services to third-party customers. The assets are integrated across Canada and the US, and are also used to generate fee-for-service income. The business is supported by an integrated supply, marketing and distribution function that contributes to the overall operating margin of the Corporation.

Pembina purchases NGL mix from various natural gas producers and fractionates it into finished products at the Redwater fractionation facility near Edmonton, Alberta. Redwater West also includes natural gas supply volumes from the Younger NGL extraction plant located at Taylor in north eastern British Columbia. The Younger plant supplies specification NGL to local markets as well as NGL mix supply to the Fort Saskatchewan area for fractionation and sale.

Also located at the Redwater facility is Pembina's industry-leading rail-based condensate terminal, which serves the heavy oil industry and its need for diluent. Pembina's condensate terminal is the largest of its size in western Canada.

Pembina extracts NGL from natural gas at the Empress straddle plants and sells ethane and condensate in the western Canadian marketplace while transporting C_3/C_4 NGL mix to Sarnia, Ontario for fractionation and sale into markets in central Canada and the eastern United States. Demand for propane is seasonal and results in inventory that 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.

Ethane is predominately purchased by NOVA Chemicals and Dow Canada. Cenovus and its affiliates purchase the majority of the condensate from the Empress debutanizer. Plains All American Pipeline operates the Plains E1 Plant at Empress, Alberta and the west to east system described herein. If for any reason these parties were unable to perform their obligations under the various agreements with Pembina, the revenue and the operations of Pembina's NGL midstream business could be negatively impacted.

NGL Midstream: Contractual Arrangements

The services provided by Pembina's NGL midstream business – including fractionation, storage, NGL terminalling, loading and offloading – are provided to third parties on a cost-of-service or a fee basis utilizing assets at Pembina's Redwater facility. Pembina also owns a debutanizer at its Empress facility, which removes condensate from the NGL mix for sale as a diluent to blend with heavy oil. This service is provided to a major energy company on a long-term cost-of-service basis. Earnings from these activities have little direct exposure to market price volatility and are thus relatively stable. Pembina's Redwater West and Empress East assets used to generate this fee-for-service income are also employed to generate proprietary income.

Pembina's Midstream business model operates in a competitive environment for transportation, terminalling, storage and more recently rail. Pembina's asset base provides a platform for competitive solutions in these areas. The demand for terminalling, storage and rail is growing as downstream pipeline capacity is unable to keep pace with upstream supply growth and downstream consumption interest.

Pembina's Midstream infrastructure and logistics business is subject to competition from other truck terminals, full-service terminals, storage facilities and fractionators which are either in the general vicinity of the facilities or have gathering systems that are or could potentially extend into areas served by the facilities.

Producers in western Canada compete with producers in other regions to supply crude oil, condensate and natural gas and other hydrocarbon products to customers in North America, and the hydrocarbon industry also competes with other industries to supply the fuel, feedstock and other needs of consumers. Such competition may have an adverse effect on the production of hydrocarbon products in western Canada and, as a result, on the demand for Pembina's services.

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

OTHER INFORMATION RELATING TO PEMBINA'S BUSINESS

Information and Communication Systems

Pembina employs SCADA technology on all of its pipeline systems. The SCADA systems allow for continuous electronic monitoring and control of the pipeline systems from dedicated computer consoles located in Pembina's Edmonton control centre. Operators monitor the computer consoles 24 hours per day, 365 days per year. The SCADA systems and associated leak detection software continually monitor pipeline flow and operating conditions. Line balance calculations are performed automatically by the system and alarms are triggered when imbalances are detected or measured pressures do not match those projected by software models.

For 2012, Pembina continued to work on its long–term initiative to standardize and upgrade the SCADA systems and leak detection platforms used to remotely monitor and control the various pipelines. Pembina is currently in the process of migrating the control of the Liquids Gathering System pipeline (an asset acquired through the Provident Acquisition) from the Redwater Plant to the SCADA system in the Edmonton Control Centre.

Integrity Management

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

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

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

Between 2010 and 2012, Pembina completed a baseline geotechnical inspection program of pipelines to inventory all water crossings and slopes and to assess integrity threats posed by these crossings and slopes. In 2012, Pembina completed 25 crossing mitigation projects (generally identified in 2011) as well as assessed over 400 water crossings and completed 163 detailed stream crossing surveys. For 2013, Pembina has identified 28 stream crossings that will require varying degrees of work to mitigate the impacts of stream erosion. In 2013, Pembina also plans to remediate or stabilize two potentially unstable slopes.

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

Pembina has employed in-line inspection since the early 1970s, progressing to newer high resolution ILI technology in the late 1990s. As part of Pembina's ongoing IMP, 70 pipeline segments were inspected in 2012 compared to 66 in 2011. Several of the segments inspected in 2012 were inspected for the first time with a geometry tool which measures pipeline deformations which could be related to original construction damage, geotechnical movement and/or third-party hits. Approximately 49 line segments are scheduled for inspection in 2013.

For those line segments with higher susceptibility to crack failures, Pembina also employs specialized ultrasonic ILI crack detection technology. Between 2004 and 2011, Pembina has completed crack detection inspections on the Western Pipeline, portions of the Peace Pipeline (LaGlace to Fox Creek), the 12 inch and 20 inch lines from Fox Creek to Edmonton, the 16 inch crude line from Judy Creek to Edmonton, the 16 inch NGL line from Judy Creek to Edmonton and on the 22 inch Horizon Pipeline. In 2012, Pembina completed five ultrasonic inspections. These include a re-inspection of the Peace Pipeline 20 inch between Fox Creek and Edmonton, as well as first time inspection of the 16 inch Valleyview to Fox Creek, 10 inch Swan Hills to Namao, 16 inch Redwater to Pipeline Alley and 16 inch Judy Creek to Whitecourt pump station. In 2013, Pembina plans to run ultrasonic tools on an additional four pipeline segments. Data from these inspections is analyzed by Pembina and third-party technical experts, in conjunction with pipeline pressure data, to design appropriate mitigation, repair and re-assessment programs.

In addition to the IMP for pipeline assets, Pembina also has regularly scheduled inspection and repair programs for the above and below-ground storage tanks and pressure vessels. Pembina complies with inspection frequencies for pressure vessels set out by Pembina's Owner User Program, registered with the Alberta Boilers Safety Association ("**ABSA**") and for atmospheric storage tanks by ERCB Directive 55. In 2012, Pembina completed 32 vessel, 13 storage tank, and 51 sump tank inspections. For each inspection, repairs are conducted as required to ensure compliance to applicable codes and standards. In addition, in 2012 Pembina's pressure equipment integrity management plans were audited by the ABSA. Both audits resulted in only minor findings which have been addressed with ABSA. In 2013, Pembina is scheduled to inspect 57 pressure vessels, 40 storage tanks, 72 sump tanks, and 2 storage tubes (internal inspection).

In 2011, Pembina initiated a verification program (blanket inventory) of all pressure equipment. This program is currently at 80 percent complete and will be 100 percent by the fourth quarter of 2013.

Environmental Matters

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

To confirm regulatory compliance and conformance with Pembina's internal environmental standards, Pembina has in place a planned environmental audit program. As part of this program, regularly scheduled third-party environmental audits are conducted on a five-year rotating basis at various major facilities within a selected business each year. The program is designed such that each major facility is audited at least once every five years.

In addition, Pembina has an incident review panel (the " **IRP**"), which has been in place since first quarter 2010, that meets monthly and consists of operational, safety and environmental leaders as well as business Vice Presidents, the President and other members of the executive team. The IRP is focused on analyzing and understanding incident root causes, determining and completing resulting action plans to eliminate re-occurrence and more importantly ensuring that these learnings are fully communicated and implemented on a corporate-wide basis.

Environmental Incidents

Pembina's focus on integrity management and safe operations continues to result in low incident frequency and minimal environmental impact.

The July, 2011 Moosehorn release event clean-up efforts were substantially complete by the fourth quarter of 2011. In 2012, further site monitoring was undertaken with no additional contamination found and all soil replacement and final site contouring was completed in the fourth quarter of 2012. Final area seeding and tree planting will take place in mid-2013. A majority of these costs will be covered by insurance. Pembina met with Environment Canada in the first quarter of 2012 regarding this event and received a summary warning letter but no charges were laid. The ERCB published its final report on February 26, 2013 in relation to this event. Also in 2012, the 10 km segment of 8 inch pipeline was successfully replaced and the pipeline was back in full service in the second quarter of 2012.

Pembina spent approximately $3.3 million on other pre-existing spill sites in 2012, approximately $1.2 million on yearly environmental programs, monitoring and audits, and approximately $1.4 million on the update and maintenance of Pembina's Emergency Response Planning system and corporate security measures.

In addition to the environmental expenses associated with its operations, Pembina also invests in environmental assessment, planning and post-construction monitoring associated with capital projects.

Provisions

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

Decommissioning provision

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

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

For more information with respect to the Corporation's estimated net present value of decommissioning obligations, see Note 14 to the Corporation's audited consolidated financial statements for the year ended December 31, 2012, which may be found on the Corporation's company profile on the SEDAR website at www.sedar.com and the EDGAR website at www.sec.gov.

Derivative Financial Instruments

The Corporation has entered into derivative financial instruments to limit the exposure to changes in commodity prices, interest rates, cost of power, and foreign exchange rates. Hedge accounting has not been applied; however, Pembina still considers that there is an economic hedge which limits the exposure to fluctuations in revenue and expenses.

For more information with respect to the Corporation's derivative financial instruments and financial risk management program, see "Market Risk Management Program" in the Corporation's management discussion and analysis for the year ended December 31, 2012, which section is incorporated by reference herein, and Note 27 to Pembina's audited consolidated financial statements for the year ended December 31, 2012, which note is incorporated by reference herein. Electronic copies of these documents can be found on the Corporation's company profile on the SEDAR website at www.sedar.com, in the Corporation's annual report on Form 40-F filed on the EDGAR website at www.sec.gov and on Pembina's website at www.pembina.com.

Pipeline Rights–of–Way and Land Tenure

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

Indemnification and Insurance

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

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

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

Employees

As at December 31, 2012, Pembina employed 758 personnel, of which 417 were engaged in the performance of field operations and superintendence activities, and 341 were engaged in the performance of facilities engineering, systems, management, finance, accounting, administration, human resources, information services, drafting, business development and safety and environmental service activities. Of the above field operation employees, 13 are unionized. Pembina's workforce is relatively stable with limited turnover and employees are financially encouraged to remain in Pembina's employment through options to purchase Common Shares, long-term incentive programs and pension plans, all which vest over time.

Corporate Social Responsibility

Pembina is committed to maintaining a high standard of corporate governance and ethical practices, both within the corporate boardroom and throughout its operations. Pembina's corporate governance practices are designed with a view to:

- Ensure it operates in a safe, reliable and environmentally responsible manner.
- Ensure it meets its obligations to all regulatory bodies, business partners, customers, stakeholders, employees and shareholders; and
- Ensure its businesses are effectively managed in the best interests of all stakeholders.

Code of Ethics

The Board of Directors has adopted a Code of Ethics which applies to all directors, officers, employees and certain contractors of Pembina. The Code of Ethics is available at Pembina's website at www.pembina.com

In support of the Code of Ethics, Pembina has adopted various business conduct policies covering matters, including but not limited to ethics, disclosure, insider trading and conflicts of interest, and has adopted a number of specific procedures and guidelines to facilitate compliance with the Code of Ethics and the various policies.

The policies include the:

- Health, Safety and Environment Policy
- Respectful Workplace Policy
- Aboriginal Relations Policy
- Whistleblower Policy
- Corporate Security Management Policy

*Health, Safety and Environment ("**HSE**") Policy*

HSE are top priorities in all of Pembina's operations and business activities. The Corporation is committed to being an industry leader in conducting its business so that it meets or exceeds all applicable laws and regulations and to protecting the health and safety of workers, the public and safeguarding the environment affected by its activities. Pembina is also committed to improving its HSE performance. These areas are of paramount importance to management, employees and contractors at the Corporation. Pembina believes that excellence in health, safety and environmental practices is essential to the well-being of the Corporation.

The Health, Safety and Environment Committee of Pembina's Board of Directors monitors compliance with the HSE Policy through regular reporting. Pembina's integrated HSE management system is modeled after the International Organization for Standardization standard for environmental management systems, ISO 14001; and the Occupational Health and Safety Assessment Series (OHSAS 18001) for occupational health and safety. The Corporation's HSE management system conforms to external industry consensus standards and voluntary regulatory programs and complies with applicable legislated requirements and various other internal management systems. Management is informed regularly of all important and/or significant HSE operational issues and initiatives through formal reporting and incident management processes, including tracking all "close calls." The HSE management system is subject to ongoing internal and external review to ensure that it remains effective as circumstances change.

Respectful Workplace Policy

Pembina is committed to providing a workplace that is pleasant, healthy, comfortable, and free from intimidation, hostility or other offenses which might interfere with work performance. Employees are expected to treat each other with mutual respect, fairness and dignity. Discrimination or harassment of any sort will not be tolerated. The purpose of this policy is to create a respectful workplace through the prevention and quick resolution of harassment and/or discrimination.

Aboriginal Relations Policy

By striving for positive and mutually-beneficial relationships with Aboriginal leadership and communities, Pembina employees, consultants and contractors will help build continued success for Pembina’s existing and expanding systems and other businesses. Pembina desires to enter into lasting and mutually-beneficial relationships with all Aboriginal peoples affected by its operations.

Whistleblower Policy

Pembina is committed to high standards of professional and ethical conduct in all activities. Our reputation for honesty and integrity among our stakeholders is key to the success of our business. The transparency, honesty, integrity and accountability of Pembina's financial, administrative and management practices are vital. These high standards guide the decisions of the Board of Directors and are relied upon by Pembina's stakeholders and the financial markets.

For these reasons, it is critical to maintain a workplace where concerns regarding questionable business practices can be raised without fear of any discrimination, retaliation or harassment. This reporting mechanism invites employees to act responsibly to uphold the reputation of Pembina and maintain public confidence. Encouraging a culture of openness and ethical leadership from management will also help this process. This policy is intended to encourage and enable stakeholders to raise serious concerns within the Corporation rather than overlooking a problem or seeking a resolution of the problem outside the Corporation.

Corporate Security Management Policy

The Corporation is committed to protecting the safety of its workers, the public, and to safeguarding Pembina's facilities and information. These areas are of paramount importance to management, employees and contractors at the Corporation. Pembina believes that excellence in security management is essential to the well-being of the Corporation. As such, the Corporation is committed to identifying security risks and establishing appropriate programs and procedures to reduce these risks to an acceptable level, and to testing these programs and procedures to assess their effectiveness on a regular basis.

Corporate Governance

Pembina's Board and management are committed to the highest standards of ethical conduct and corporate governance.

Pembina is a public company listed on the TSX and the NYSE, and it recognizes and respects rules and regulations in both Canada and the U.S.

The Corporation's corporate governance practices comply with the Canadian governance guidelines, which include the governance rules of the Canadian Securities Administrators ("CSA"):

- National Instrument 52-110, Audit Committees (Canadian audit committee rules);
- National Policy 58-201, Corporate Governance Guidelines; and
- National Instrument 58-101, Disclosure of Corporate Governance Practices.

Pembina also complies with the governance listing standards of the NYSE and the governance rules of the SEC that applies to foreign private issuers.

The Corporation's governance practices comply with the NYSE standards for U.S. companies in all significant respects, except as summarized on the Corporation's website at www.pembina.com. As a non-U.S. company, the Corporation is not required to comply with most of the governance listing standards of the NYSE. As a foreign private issuer, however, we must disclose how our governance practices differ from those followed by U.S. companies that are subject to the NYSE standards.

Pembina benchmarks its policies and procedures against major North American companies to assess its standards, and it adopts best practices as appropriate. Some of its best practices are derived from the NYSE rules and comply with applicable rules adopted by the SEC to meet the requirements of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Further information about Pembina's corporate governance can be found on the Corporation's website at www.pembina.com under the heading Governance.

WESTERN CANADIAN OIL AND GAS INDUSTRY

General

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

The discussion below provides an overview of the Canadian crude and heavy oil industry, the NGL industry and midstream service provider industry.

Canadian Crude and Heavy Oil Overview

Western Canada has one of the world’s largest crude oil reserves. Over the past number of years, the crude oil industry in Alberta and western Canada in general has experienced a resurgence due to the implementation of improved drilling technologies which have enabled increased recoveries and well economics. The WCSB was once considered to be a declining resource, but these technologies (multi-stage hydraulic fracturing) have allowed producers to access tighter areas of the reserve, which were previously considered to be uneconomical.

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

Condensate is the “heaviest” gas liquid. As producers increase their production of oil sands and heavy oil, there is a growing demand for condensate. With assets spanning across the crude oil, condensate and NGL value chains, Pembina is uniquely positioned to provide customers with access to condensate via pipeline or rail.

Pipelines continue to be the most economical and dominant mode of transportation for crude oil, condensate, and heavy oil; however, given the extensive rail infrastructure spanning across North America, transporting hydrocarbon products by rail is gaining momentum.

Product Transportation: Feeder Pipeline Systems

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

All of Pembina's pipelines are feeder pipeline systems. The conventional pipelines collectively transported approximately 480.2 mbpd of crude oil, condensate and NGL products in 2012. The conventional pipelines transport the majority of its product into the Edmonton/Fort Saskatchewan, Alberta area, while a smaller amount is delivered into Kamloops, B.C. Pembina's oil sands and heavy oil pipelines had a combined contracted capacity of 870 mbpd in 2012. These pipelines primarily transport product from established production fields in their respective service areas, the Syncrude Project or the Horizon Project, into the refining and export pipeline centres at Edmonton/Fort Saskatchewan. The Cheecham Lateral transports SCO from an existing pump station on the Syncrude Pipeline to a terminalling facility located near Cheecham, Alberta, where it is then used as diluent for oil sands projects in the area. The Nipisi Pipeline and Mitsue Pipeline provide diluted heavy oil and diluent transportation for operators in the Pelican Lake and Peace River heavy oil regions of Alberta.

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

Product Transportation: Export Liquids Pipeline Systems

The export liquids pipelines originating in the Edmonton and Fort Saskatchewan area are the TransMountain Pipeline, the Enbridge Pipeline and the Cochin Pipeline. Crude oil and refined products delivered to domestic and export markets on the west coast are transported through the Express Pipeline. Crude oil and refined products delivered to eastern Canada and the northern United States are transported through the Enbridge Pipeline. NGL delivered to eastern Canadian and export markets are transported through the Enbridge Pipeline and the Cochin Pipeline. With respect to the Cochin Pipeline, Kinder Morgan Energy Partners has completed a successful binding open season for reversing the pipeline which, subject to necessary approvals, is expected to allow for a new service to move condensate from Illinois to existing terminal facilities near Fort Saskatchewan, Alberta in 2014. Should this project proceed, the Cochin Pipeline would no longer be considered an export pipeline. The TCPL Keystone Pipeline and Express Pipeline also exports crude oil from Hardisty, Alberta. However, none of Pembina's systems are directly connected to Hardisty.

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

NGL Overview

The Canadian NGL industry involves the production, storage, transportation and marketing of products that are extracted from natural gas prior to its sale to end-use customers. The profitability of the industry is based on the products extracted being of greater economic value as separate commodities (net of the costs of extraction) than as components of natural gas.

Natural gas is a mixture of various hydrocarbon components, the most abundant of which is methane. The higher value hydrocarbons, which include ethane (C_2), propane (C_3), butane (C_4) and condensate (C_{5+}), are generally in gaseous form at the pressures and temperatures under which natural gas is gathered and transported. NGL extraction facilities recover certain higher value hydrocarbons, such as ethane, propane, butane and condensate, from natural gas for sale in a liquid form. Almost 90 percent of NGL supply in western Canada is derived from natural gas processing, with the remainder derived from the refining of crude oil.

The NGL value chain begins with the gathering of gas that is produced. The gas then gets processed through field processing plants, mainline extraction facilities and fractionation facilities in order to remove high value NGL, as well as water, sulphur and other impurities. The value chain culminates with the transportation and eventual sale of NGL to the final customer.

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

NGL Extraction

NGL is recovered at three distinct types of facilities: natural gas field plants, natural gas mainline straddle plants and oil refineries. Field plants process raw natural gas, which is produced from wells in the immediate vicinity, to remove impurities such as water, sulphur and carbon dioxide prior to the delivery of natural gas to the major natural gas pipeline systems. Field plants also remove almost all pentanes-plus and as much as 65 percent of propane and 80 percent of butane in order to meet pipeline specifications. Most field plants do not extract ethane but leave it in the natural gas. Once processed, the sales gas is then compressed and delivered to one of the major market systems which include the ATCO Gas and Pipelines Ltd. gas transmission system, the Alliance Pipeline Limited Partnership system, the Nova Gas Transmission Ltd. system and the Spectra system in British Columbia. In the Province of Alberta, any NGL and ethane remaining in the natural gas is extracted at mainline straddle plants prior to export. Pembina has ownership interests in four of the six mainline straddle plants on the Nova Gas Transmission system in the Empress area and the Younger Extraction plant on the Spectra system.

Extracted NGL is in a mixed state (either ethane-plus or propane-plus), which must be further processed in subsequent steps to separate out the individual products. At most field facilities, only sufficient NGL to make the residual gas marketable is extracted; however, with the addition of enhanced processing facilities such as Pembina's Musreau Deep Cut Facility (an example of a gas plant) and Pembina's Empress plant (an example of a mainline straddle plant) further NGL extraction is possible to ensure the maximum amount of NGL is recovered. NGL products have historically been priced relative to oil, so this additional level of recovery is dependent on the relative value between oil and natural gas. As the relative price of oil versus natural gas increases, the impetus for this activity is increasingly wide spread.

NGL Fractionation

NGL mix extracted at field plants and straddle plants is transported to fractionation facilities, which enhances its value by separating the mix into its components: ethane, propane, butane and pentanes-plus. Fractionation generally does not occur at field plants, but rather at a central location. NGL mixes are moved by truck or pipeline to fractionation facilities. Once fractionated, the products are then transported to markets by pipeline, truck or rail.

NGL Transportation

The efficient movement of NGL products in Canada requires significant infrastructure, including transportation assets (pipelines, trucks, rail cars), storage facilities, and terminals (rail and truck). The most efficient and the lowest-cost means for moving NGL products to markets is by pipeline. The Canadian energy sector has an extensive pipeline network for the transportation of natural gas to field plants and extraction facilities, and NGL to fractionation facilities, petrochemical complexes, underground storage facilities and the final customer. Truck and rail account for a significant amount of the NGL transported, with pipelines serving as the main mode of transport.

NGL Storage

Storage assets offer a number of key strategic advantages, which include: (i) providing the necessary operational buffer between production of NGLs (which varies daily depending on gas flows and composition) and their consumption (which can vary from day-to-day and season-to-season depending on market needs); (ii) allowing NGL sellers to store inventory to accommodate outages in NGL fractionation plants; and (iii) exploiting seasonal price differentials that may develop over the course of a year (particularly for propane and butane).

NGL Marketing

The markets for NGL are North American in scope with end uses varying substantially by product. NGL are used directly as heating and transportation fuels and also as a feedstock for the petrochemical and crude oil refining industries. Ethane is used primarily as feedstock for the petrochemical industry. Propane is the most versatile of the NGL products from a marketing perspective. Uses for propane include home and commercial heating, crop drying, cooking and motor fuel. Butane is used primarily in gasoline blending, either directly or in the production of iso-octane and as a diluent for heavy oil. Pentanes-plus is used primarily as a diluent to blend with heavy crudes to decrease the viscosity and density of these crudes, allowing them to be transported in pipelines. In addition, pentanes-plus are used as a refinery feedstock in the production of gasoline.

Crude oil, SCO and NGL produced in Canada are transported to market through extensive gathering and transportation systems – feeder pipeline systems and export pipeline systems – discussed above.

Midstream Services for Crude Oil, SCO & NGL

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

On the receipt side, Pembina's truck terminals are a means for oil, condensate and NGL production, which is not pipeline connected, to secure access to transportation to market. With the growth in multi-stage fractionation and production techniques, there is also growing demand to treat emulsion, oil-water mixtures and waste water, prior to being ready for sale and accepted into a pipeline. The treating of emulsion and disposal of associated water at full-service truck terminal facilities is a business expansion opportunity for Pembina. In 2012, Pembina started construction on a joint venture full-service terminal in the Judy Creek, Alberta area which has an estimated project completion date of April 2013.

DESCRIPTION OF THE CAPITAL STRUCTURE OF THE CORPORATION

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Internal Preferred Shares. As of December 31, 2012, there were 293,226,473 Common Shares outstanding, 3,531,638 Common Shares reserved for issuance pursuant to the Option Plan, 10,498,284 Common Shares reserved for issuance pursuant to the Series C Convertible Debentures, 6,901,925 Common Shares reserved for issuance pursuant to the Series E Convertible Debentures, 5,839,621 Common Shares reserved for issuance pursuant to the Series F Convertible Debentures and 101,400,000 Internal Preferred Shares outstanding (all of which Internal Preferred Shares are owned by the Corporation's wholly-owned subsidiary, Alberta Oil Sands Pipeline Ltd.).

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

Common Shares

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

Internal Preferred Shares

Holders of Internal Preferred Shares shall not be entitled to receive notice of, to attend or to vote at any meeting of the Shareholders, except as required by law. The Internal Preferred Shares are retractable and redeemable at the option of the holder thereof and the Corporation, respectively. The price or consideration payable at which each Internal Preferred Share shall be retracted or redeemed (the "**Redemption Amount**") shall be the fair market value of the consideration received thereof as determined by the Board of Directors at the time of issuance of the Internal Preferred Shares, as adjusted from time to time pursuant to the terms of the Internal Preferred Shares.

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

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

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

Premium Dividend™ and Dividend Reinvestment Plan

The Corporation reinstated the DRIP effective as of the January 25, 2012 record date and the corresponding dividend was paid on February 15, 2012. The DRIP provides Shareholders the opportunity, subject to eligibility restrictions, withholding taxes and prorating as provided for in the plan, to either receive a cash payment equal to 102 percent of any cash dividends otherwise payable by the Corporation or accumulate additional Common Shares at a 5 percent discount to an average market price. Pembina will determine, for each dividend payment date during a period for which the DRIP is not suspended, the amount of new equity or premium cash payments, if any, that will be made available under the DRIP on that date.

Convertible Debentures

Series C Convertible Debentures

On November 17, 2010, Pembina issued $300,000,000 aggregate principal amount of Series C Convertible Debentures at a price of $1,000 per Series C Convertible Debenture, which bear interest at an annual rate of 5.75 percent payable semi-annually on May 31 and November 30 in each year commencing May 31, 2011 and have a maturity date of November 30, 2020. The Series C Convertible Debentures are listed on the TSX under the symbol "PPL.DB.C".

Each Series C Convertible Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on November 30, 2020 and the business day immediately preceding the date specified for redemption by Pembina of the Series C Convertible Debentures, at a conversion price of $28.55 per Common Share, subject to adjustment in certain events. Pembina may, at its option on or after November 30, 2014 and prior to November 30, 2016, elect to redeem the Series C Convertible 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 Convertible Debentures. On or after November 30, 2016, the Series C Convertible Debentures may be redeemed in whole or in part at the option of Pembina at a price equal to their principal amount plus accrued and unpaid interest. Pembina can elect to pay interest on the Series C Convertible Debentures by issuing Common Shares.

As at December 31, 2012, $299.7 million principal amount of Series C Convertible Debentures were outstanding.

Series E and Series F Convertible Debentures

Pursuant to the Provident Acquisition, Pembina assumed all of the rights and obligations of Provident related to the Series E Convertible Debentures and Series F Convertible Debentures, which are now listed on the TSX under the symbols "PPL.DB.E" and "PPL.DB.F", respectively.

The Series E Convertible Debentures were issued November 1, 2010 in the principal aggregate amount of $172,500,000, which bear interest at an annual rate of 5.75 percent payable semi-annually on June 30 and December 31 and have a maturity date of December 31, 2017. Each Series E Convertible Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on December 31, 2017 and the business day immediately preceding the date specified for redemption by Pembina of the Series E Convertible Debentures, at a conversion price of $24.94 per Common Share, subject to adjustment in certain events. Pembina may, at its option on or after December 31, 2013 and prior to December 31, 2015, elect to redeem the Series E Convertible Debentures in whole or in part, provided that the volume weighted average trading price of the common price of the 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 Convertible Debentures. On or after December 31, 2015, the Series E Convertible Debentures may be redeemed in whole or in part at the option of Pembina at a price equal to their principal amount plus accrued and unpaid interest. Any accrued unpaid interest will be paid in cash.

As at December 31, 2012, $172.1 million principal amount of Series E Convertible Debentures were outstanding.

The Series F Convertible Debentures were issued April 29, 2011 in the principal aggregate amount of $172,500,000, which bear interest at an annual rate of 5.75 percent payable semi-annually on June 30 and December 31 and have a maturity date of December 31, 2018. Each Series F Convertible Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on December 31, 2017 and the business day immediately preceding the date specified for redemption by Pembina of the Series F Convertible Debentures, at a conversion price of $29.53 per Common Share, subject to adjustment in certain events. Pembina may, at its option on or after December 31, 2014 and prior to December 31, 2016, elect to redeem the Series F Convertible Debentures in whole or in part, provided that the volume weighted average trading price of the common price of the 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 Convertible Debentures. On or after December 31, 2016, the Series F Convertible Debentures may be redeemed in whole or in part at the option of Pembina at a price equal to their principal amount plus accrued and unpaid interest. Any accrued unpaid interest will be paid in cash.

As at December 31, 2012, $172.4 million principal amount of Series F Convertible Debentures were outstanding.

Credit Facilities

Pembina's credit facilities as at December 31, 2012 consisted of an unsecured $1,500 million revolving credit facility due March 20, 2017 (the "**Revolving Credit Facility**") and an unsecured operating facility of $30 million due July 2013 (the " **Operating Credit Facility**", and together with the Revolving Credit Facility, the "**Credit Facilities**"). Borrowings on the Credit Facilities bear interest at prime lending rates plus nil to 1.25 percent or Bankers' Acceptances rates plus 1.00 percent 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 the Credit Facilities. As at December 31, 2012, Pembina had $525 million drawn on bank debt, $0.1 million in letters of credit and $27.3 million in cash, leaving $1,032.3 million of unutilized debt available under the Credit Facilities. In addition, as at December 31, 2012, Pembina had $14.3 million in letters of credit issued in a separate demand letter of credit facility. In October 2012, Pembina used the net proceeds of the offering of the Medium Term Notes, Series 2 to repay a portion of the Credit Facilities.

In addition, Pembina has a $75 million senior unsecured term credit facility from a Canadian chartered bank at a fixed rate of 6.16 percent and which matures on May 20, 2014 (the "**Term Facility**"). Pembina, on a consolidated basis, is required under the Term Facility to meet certain financial covenants which mirror the covenants with respect to the Credit Facilities, and is subject to customary positive and negative covenants relating to its operations and activities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets.

Medium Term Notes

Medium Term Notes, Series 1

On March 29, 2011, the Corporation issued and sold $250 million aggregate principal amount of Medium Term Notes, Series 1. The Medium Term Notes, Series 1 have an annual coupon rate of interest of 4.89 percent and mature on March 29, 2021. Pembina's obligations under the Medium Term Notes, Series 1 and the Medium Term Note Indenture are guaranteed by certain subsidiaries of Pembina.

Pembina may redeem the Medium Term Notes, Series 1, either in whole at any time, or in part from time to time, upon not less than 30 and not more than 60 days prior notice, at a price equal to the greater of (i) par and (ii) the Canada Yield Price (as defined below), plus, in either case, accrued but unpaid interest, if any, to but excluding, the date of redemption. "**Canada Yield Price**" means, in effect, a price equal to the price of the Medium Term Notes, Series 1 calculated in accordance with generally accepted financial practice in Canada to provide a yield to maturity equal to the Government of Canada Yield (as defined below) plus 0.395 percent per annum for the Medium Term Notes, Series 1 issued on March 29, 2011. "**Government of Canada Yield**" means, on any date, in effect, the yield to maturity on such date compounded semi-annually which a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100 percent of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Notes, Series 1. The Government of Canada Yield will be the average of the yields determined by two major Canadian investment dealers selected by Pembina. In certain circumstances following a Change of Control (as such term is defined in the Medium Term Note Indenture) and a resulting downgrade in the ratings of the Medium Term Notes, Series 1 to below an investment grade, Pembina will be required to make an offer to repurchase all or, at the option of any holder of Medium Term Notes, Series 1, any part, at a purchase price payable in cash equal to 101 percent of the aggregate outstanding principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase.

Medium Term Notes, Series 2

On October 29, 2012, the Corporation issued and sold $450 million aggregate principal amount of Medium Term Notes, Series 2. The Medium Term Notes, Series 2 have an annual coupon rate of interest of 3.77 percent and mature on October 24, 2022. Pembina's obligations under the Medium Term Notes, Series 2 and the Medium Term Note Indenture are guaranteed by certain subsidiaries of Pembina.

Pembina may redeem the Medium Term Notes, Series 2, either in whole at any time, or in part from time to time, upon not less than 30 and not more than 60 days prior notice, at a price equal to the great of (i) par and (ii) the Canada Yield Price (as defined below), plus, in either case, accrued but unpaid interest, if any, to but excluding the date of redemption. "**Canada Yield Price**" means, in effect, a price equal to the price of the Medium Term Notes, Series 2 calculated in accordance with generally accepted financial practice in Canada to provide a yield to maturity equal to the Government of Canada Yield plus 0.46 percent per annum for the Medium Term Notes, Series 2 issued October 29, 2012. "**Government of Canada Yield**" means, on any date, in effect, the yield to maturity on such date compounded semi-annually which a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100 percent of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Medium Term Notes, Series 2. The Government of Canada Yield will be the average of the yields determined by two major Canadian investment dealers selected by Pembina. In certain circumstances following a Change of Control (as such term is defined in the Medium Term Note Indenture) and a resulting downgrade in the ratings of the Medium Term Notes, Series 2 to below an investment grade, Pembina will be required to make an offer to repurchase all or, at the option of any holder of Medium Term Notes, Series 2, any part, at a purchase price payable in cash equal to 101 percent of the aggregate outstanding principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase.

Other Debt

Other debt at December 31, 2012 included $175 million in Series A senior unsecured notes bearing interest at 5.99 percent payable semi-annually due 2014 (the "**Series A Senior Notes**"); $267 million in Series D senior unsecured notes bearing interest at 5.91 percent payable semi-annually due 2019 (the "**Series D Senior Notes**"); and $200 million in Series C unsecured notes bearing interest at 5.58 percent payable semi-annually due 2021 (the "**Series C Senior Notes**"). The Senior Notes are subject to the maintenance of certain financial ratios.

Subsidiary Debt

In connection with the Provident Acquisition, Pembina acquired a two-thirds ownership interest in Provident's subsidiary, Three Star Trucking Ltd. ("**Three Star**"). Three Star's debt is comprised of fixed rate, demand loans secured by specific assets of Three Star. As at December 31, 2012, the weighted average interest rate was 5.04 percent.

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 to, and the associated costs of, entering 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 judgement circumstances so warrant.

DBRS Limited

DBRS Limited ("**DBRS**") has assigned a debt rating of "BBB" to each of the Medium Term Notes, Series 1 and Medium Term Notes, Series 2. DBRS also rates Pembina's senior unsecured notes 'BBB'.

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

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

Standard & Poor's

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (" **S&P**") has a long-term corporate credit rating on Pembina of 'BBB'. S&P also has assigned a rating of "BBB" to the Medium Term Notes, Series 1 and Medium Term Notes, Series 2.

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

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

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

See "*Risk Factors – General Risk Factors – Credit Ratings*".

RISK FACTORS

The following information is a summary only of certain risk factors relating to Pembina or an investment in securities of the Corporation or its subsidiaries and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Shareholders and prospective investors should carefully consider these risk factors before investing in Pembina's securities, as each of these risks may negatively affect the trading price of Pembina's securities, the amount of dividends paid to Shareholders and the ability of Pembina to fund its debt obligations, including debt obligations under its outstanding convertible debentures and any other debt securities that Pembina may issue from time to time.

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

Pembina continually works to mitigate the impact of potential risks to its business by identifying all significant risks so that they can be appropriately managed. To assist with identifying risk, the Corporation has implemented a comprehensive enterprise risk management program.

Risks Inherent in Pembina's Business

Operational Risks

Operational risks include: pipeline leaks; the breakdown or failure of equipment, information systems or processes; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); spills at truck terminals and hubs; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; operational disruptions or apportionment on third-party systems or refineries which may prevent the full utilization of Pembina's pipelines; and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs, and other similar events, many of which are beyond the control of Pembina. The occurrence or continuance of any of these events could increase the cost of operating Pembina's assets or reduce revenue, thereby impacting earnings.

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

Midstream Business

Pembina's Midstream business includes product storage terminalling and hub services. These activities expose the Corporation to certain risks including that the Corporation may experience volatility in revenue due to variations in commodity prices. Primarily, the Corporation enters into contracts to purchase and sell crude oil at floating market prices. The prices of products that are marketed by the Corporation are subject to fluctuations as a result of such factors as seasonal demand changes, general economic conditions, changes in crude oil markets and other factors. The Corporation manages its risk exposure by balancing purchases and sales to lock-in margins. Notwithstanding the Corporation's management of price and quality risk, marketing margins for crude oil can vary and has varied significantly from period to period and this could have an adverse effect on the results of the Corporation's commercial Midstream business and the Corporation's overall results of operations. To assist in effectively smoothing that variability, Midstream is investing in assets that have a fee-based revenue component, and look 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 narrowing frac spreads. Frac spread is the difference between the selling prices for NGL products and the cost of NGLs sourced from natural gas and acquired at natural gas related prices. The frac spread 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 US dollar foreign exchange rate. There is also a differential between NGL product prices and crude oil prices which can change prices received and 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 the frac spread. This exposure could result in material variability of cash flow generated by the NGL midstream business, which could negatively affect Pembina and the cash dividends of Pembina.

Reputation

Reputational risk is the potential for negative impacts that could result from the deterioration of Pembina's reputation with key stakeholders. The potential for harming Pembina's corporate reputation exists in every business decision and all risks can have an impact on reputation, which in turn can negatively impact Pembina business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity and regulatory and legal risks must all be managed effectively to safeguard Pembina's reputation. Negative impacts from a compromised reputation could include revenue loss, reduction in customer base, delays in regulatory approvals on growth projects, and decreased value of Pembina's securities.

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

Environmental Costs and Liabilities

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

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

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

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

Abandonment Costs

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

On May 26, 2009 the NEB issued its Reasons for Decision RH-2-2008 with respect to the Land Matters Consultation Initiative – Stream 3 which dealt with financial issues of pipeline abandonment for pipelines under the NEB's jurisdiction. The NEB decided in principle to set an ultimate goal to have all companies under its jurisdiction begin setting aside funds for the abandonment of pipelines no later than 5 years from the date of the decision. The NEB recommended an action plan to achieve this ultimate goal that would require pipelines to submit to the NEB preliminary cost estimates and fund collection mechanisms for pipeline abandonment prior to the setting aside of funds. In November 2011, Pembina (and formerly Provident) submitted preliminary cost estimates totalling $11,350,000 to the NEB for its affected approximately 275 km segments of pipeline. Pembina is working towards a pipeline abandonment fund collection plan and set aside mechanism to present to the NEB by May 31, 2013 prior to the setting aside of funds.

Reserve Replacement, Throughput and Product Demand

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

Over the long term, the Corporation's business will depend, in part, on the level of demand for crude oil, condensate, NGL and natural gas in the markets served by the crude oil and NGL pipelines and gas processing and gathering infrastructure in which the Corporation has an interest. The global economic events of 2008 and 2009 had a substantial downward effect on the demand for and prices of such products. Although prices rebounded in 2010 and remained relatively strong through 2012, Pembina cannot predict the impact of future economic conditions on the energy and petrochemical industries or future demand for and prices of natural gas, crude oil, condensate and NGL. Future prices of these products are determined by supply and demand factors, including weather and general economic conditions as well as economic, political and other conditions in other oil and natural gas regions, all of which are beyond the Corporation's control.

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, 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. 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 trunkline systems. Operational disruptions or apportionment on those third-party systems may prevent the full utilization of the business.

Over the long-term, 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.

Operating and Capital Costs

Operating and capital costs of the Corporation's business may vary considerably from current and forecast values and rates and represent significant components of the cost of providing service. In general, as equipment ages, costs associated with such equipment may increase over time. Dividends may be reduced if significant increases in operating or capital costs are incurred.

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

Completion of the Resthaven Facility and Saturn Facility

The Resthaven Facility and the Saturn Facility are currently under development by the Corporation and the successful completion of these facilities is dependent on a number of factors outside of the Corporation's control. These factors include completion of the construction of the Resthaven Facility and Saturn Facility on schedule, as well as construction costs that may change depending on supply, demand and/or inflation. Under the agreements governing the construction and operation of the Resthaven Facility and the Saturn Facility, the Corporation is obligated to construct the facilities and the Corporation bears the risk for any cost overruns. While the Corporation is not currently aware of any significant cost overruns at the date hereof, any such cost overruns in the future could reduce the Corporation's expected return on the Resthaven Facility and the Saturn Facility and adversely affect the Corporation's results of operations which, in turn, could reduce the level of cash available for dividends to Shareholders. See "*– General Risk Factors – Additional Financing and Capital Resources*" below.

Expansion of the Peace/Northern NGL System and Peace Pipeline

The Corporation has announced plans to expand throughput capacity on the Peace/Northern NGL System (Phase I NGL Expansion: 52,000 bpd, Phase II NGL Expansion: 55,000 bpd) and Peace Pipeline (Phase I Crude and Condensate Expansion: 40,000 bpd and Phase II Crude and Condensate Expansion: 55,000). The successful completion of these expansions is dependent on numerous factors outside of the Corporation's control. These factors include receipt of regulatory approval and reaching long-term commercial arrangements with customers in respect of certain portions of the expansions, completion of the construction of the expansions on schedule, as well as construction costs that may change depending on supply, demand and/or inflation. Any agreements with customers entered into with respect to the expansions may require that the Corporation bears the risk for any cost overruns and any such cost overruns could reduce the Corporation's expected return on the expansion and adversely affect the Corporation's results of operations which, in turn, could reduce the level of cash available for dividends to Shareholders. There is no certainty, nor can the Corporation provide any assurance, that regulatory approval will be received or that satisfactory commercial arrangements with customers will be reached where needed on a timely basis or at all. See "*– General Risk Factors – Additional Financing and Capital Resources*" below.

Possible Failure to Realize Anticipated Benefits of Acquisitions

As part of its ongoing strategy, the Corporation has completed acquisitions, such as the Provident Acquisition, and may complete additional 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 the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses 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 the Corporation's ability to achieve the anticipated benefits of any acquisitions.

Competition

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

Execution Risk

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

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

Shipper and Processing Contracts

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

Structural Integrity of the Storage Facility

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

Reliance on Principal Customers and Operators

The Corporation relies on several significant customers to purchase product from the Midstream Business. Ethane is predominately purchased by NOVA Chemicals and Dow Canada. Cenovus and its affiliates will purchase the majority of the condensate from Empress debutanizer. Plains All American Pipeline operates the Plains E1 Plant at Empress, Alberta and the west to east system described herein. If for any reason these parties were unable to perform their obligations under the various agreements with the Corporation, the revenue and dividends of the Corporation, and the operations of the Midstream Business could be negatively impacted.

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

Dilution of Shareholders

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

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

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

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

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

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

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

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

Market Value of Common Shares and Other Securities

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

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

General Risk Factors

Regulation

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

Additional Financing and Capital Resources

Future acquisitions, expansions of the Corporation's pipeline systems and midstream operations, other capital expenditures, including the capital expenditures that the Corporation has committed to in respect of the proposed Resthaven Facility, the Saturn Facility and the expansion of the Peace/Northern NGL System, and the repayment or refinancing of existing debt as it becomes due will be financed from sources such as cash generated from operations, the issuance of additional Common Shares or other securities (including debt securities) of the Corporation, and borrowings. Dividends to Shareholders may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to the Corporation, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional Common Shares or other securities or the availability of additional credit facilities, becomes limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of the Corporation to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, will be impaired.

Credit Risk

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

Debt Service

The Corporation and its subsidiaries are permitted to borrow funds to finance the purchase of pipelines and other energy infrastructure assets, to fund capital expenditures and other financial obligations or expenditures in respect of those assets and for working capital purposes. Amounts paid in respect of interest and principal on debt incurred in respect of those assets reduce the amount of cash flow available for dividends to Shareholders. Variations in interest rates and scheduled principal repayments for which the Corporation may not be able refinance at favourable rates or at all, could result in significant changes in the amount required to be applied to service debt, which could have detrimental effects on the amount of cash available for dividends to Shareholders. Certain covenants contained in the agreements with the Corporation's lenders may also limit dividend payments. Although the Corporation believes the existing credit facilities are sufficient for immediate requirements, there can be no assurance that the amount will be adequate for the future financial obligations of the Corporation or that additional funds will be able to be obtained on terms favourable to Pembina or at all.

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

The Corporation, on a consolidated basis, is also required to meet certain financial covenants under the credit facilities and the Senior Notes and is subject to customary restrictions on its operations and activities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets.

Credit Ratings

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

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

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

Changes in Legislation

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

Reliance on Management

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

Potential Conflicts of Interest

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

Litigation

The Corporation and its various subsidiaries and affiliates are, in the course of their business, subject to lawsuits and other claims. Defence and settlement costs associated with such lawsuits and claims can be substantial, even with respect to lawsuits and claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material adverse effect on the financial position or operating results of the Corporation.

Variations in Interest Rates and Foreign Exchange Rates

Variations in interest rates could result in a significant change in the amount the Corporation pays to service debt, potentially impacting dividends to Shareholders. Variations in the exchange rate for the Canadian dollar versus the U.S. dollar could affect future dividends.

DIVIDENDS AND DISTRIBUTIONS

Cash Distributions

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

Cash Distribution Per Trust Unit

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

Note:

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

Cash Dividends

Following completion of the Corporate Conversion, the Corporation began paying monthly dividends to Shareholders, and the initial monthly dividend of $0.13 per Common Share was paid on November 15, 2010 to Shareholders of record on October 25, 2010. On April 12, 2012, following closing of the Provident Acquisition, the Corporation announced an increase to its monthly dividend rate from $0.13 to $0.135 per Common Share. The following table sets forth the amount of monthly cash dividends paid by the Corporation in 2010, 2011, 2012 and to date in 2013.

Cash Dividends Per Common Shares

Month of Payment	Cash Dividend Per Common Share			
Date	2013	2012	2011	2010
January	$ 0.135	$ 0.13	$ 0.13	-
February	$ 0.135	$ 0.13	$ 0.13	-
March	-	$ 0.13	$ 0.13	-
April	-	$ 0.13	$ 0.13	-
May	-	$ 0.135	$ 0.13	-
June	-	$ 0.135	$ 0.13	-
July	-	$ 0.135	$ 0.13	-
August	-	$ 0.135	$ 0.13	-
September	-	$ 0.135	$ 0.13	-
October	-	$ 0.135	$ 0.13	-
November	-	$ 0.135	$ 0.13	$ 0.13
December	-	$ 0.135	$ 0.13	$ 0.13
Total	$ 0.27	$ 1.60	$ 1.56	$ 0.26

On February 12, 2013, Pembina announced that the Board of Directors had declared a dividend of $0.135 per Common Share to be paid, subject to applicable law, on March 15, 2013 to holders of Common Shares of record on February 25, 2013.

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

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

MARKET FOR SECURITIES

The Common Shares are listed and traded on the TSX under the symbol "PPL". The following table sets forth the price range for and trading volume of the Common Shares on the TSX for 2012, as reported by the TSX.

Month	High ($)	Low ($)	Close ($)	Volume (000s)
January	30.15	26.12	26.82	29,787,983
February	28.99	26.90	28.07	16,421,062
March	28.32	26.89	28.18	13,489,758
April	30.18	27.81	29.88	23,490,077
May	30.80	27.13	27.83	15,644,923
June	27.90	24.86	26.02	17,532,601
July	27.94	26.05	26.80	8,012,365
August	27.79	25.50	26.72	14,985,525
September	27.99	26.55	27.60	9,505,951
October	28.37	27.12	27.93	9,475,260
November	28.23	27.01	28.13	11,725,785
December	29.10	27.52	28.46	10,246,332

The Common Shares are also listed and began trading on the NYSE on April 2, 2012 under the trading symbol "PBA". The following table sets forth the price range for and trading volume of the Common Shares on the NYSE for April 2, 2012 through December 31, 2012, as reported by the NYSE.

Month	High (US$)	Low (US$)	Close (US$)	Volume
April 2 – 30	30.70	28.01	30.22	4,611,817
May	30.93	26.22	26.94	4,601,884
June	27.32	24.15	25.61	4,236,460
July	27.63	24.95	26.67	2,587,362
August	28.16	25.60	27.16	3,292,156
September	28.80	26.50	28.10	3,372,888
October	28.75	27.38	27.95	2,959,326
November	28.42	26.91	28.32	4,428,694
December	29.53	27.61	28.64	5,208,601

The Series C Convertible Debentures are listed and traded on the TSX under the symbol "PPL.DB.C". The following table sets forth the price range for and trading volume of the Series C Convertible Debentures on the TSX for 2012, as reported by the TSX.

Month	High ($)	Low ($)	Close ($)	Volume
January	111.50	104.55	108.50	158,515
February	111.87	108.25	109.10	51,120
March	110.00	107.25	109.00	56,310
April	112.74	106.95	110.51	93,780
May	115.54	106.00	107.99	41,760
June	109.00	105.05	108.74	36,605
July	110.99	107.11	109.00	39,860
August	110.50	107.85	108.61	43,190
September	111.33	108.55	109.76	42,390
October	111.50	109.15	110.45	33,910
November	111.76	109.80	110.06	64,410
December	112.69	109.03	111.00	22,320

The Series E Convertible Debentures were listed and posted for trading on the TSX under the symbol "PVE.DB.E" until the close of trading on April 5, 2012, and subsequently upon Pembina's supplemental listing becoming effective on April 9, 2012 in connection with the Provident Acquisition, the Series E Convertible Debentures were listed and posted for trading on the TSX under the symbol "PPL.DB.E". The following table sets forth the price range for and trading volume of the Series E Convertible Debentures on the TSX for 2012, as reported by the TSX.

Month	High ($)	Low ($)	Close ($)	Volume
January	114.50	104.00	112.75	578,080
February	119.43	113.00	115.81	221,250
March	117.99	112.83	117.50	43,170
April	122.99	115.78	122.25	154,440
May	124.67	113.98	115.25	136,430
June	116.34	110.00	112.06	85,095
July	116.50	111.43	114.50	13,496
August	117.99	113.40	115.00	23,580
September	117.48	113.34	117.48	10,260
October	117.50	113.96	116.50	16,290
November	118.00	113.00	118.00	92,580
December	121.00	116.00	117.00	51,680

The Series F Convertible Debentures were listed and posted for trading on the TSX under the symbol "PVE.DB.F" until the close of trading on April 5, 2012, and subsequently upon Pembina's supplemental listing becoming effective on April 9, 2012 in connection with the Provident Acquisition, the Series F Convertible Debentures were listed and posted for trading on the TSX under the symbol "PPL.DB.F". The following table sets forth the price range for and trading volume of the Series F Convertible Debentures on the TSX for 2012, as reported by the TSX.

Month	High ($)	Low ($)	Close ($)	Volume
January	106.00	101.00	105.50	311,100
February	108.49	105.50	107.50	147,180
March	108.50	104.70	107.38	95,150
April	111.82	105.01	109.84	101,892
May	112.26	104.00	106.99	72,205
June	108.13	104.02	107.98	124,190
July	110.00	106.42	109.50	76,820
August	110.88	108.00	109.51	35,500
September	111.99	108.98	110.37	17,440
October	111.00	109.11	110.49	14,080
November	111.40	109.01	110.00	14,550
December	111.00	109.00	110.75	15,470

DIRECTORS AND OFFICERS

Directors of the Corporation

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

Name and Residence	Date Appointed	Principal Occupation During the Past Five Years
Grant D. Billing[2][3] Calgary, Alberta, Canada	April 2, 2012	Independent businessman since November 2011; prior thereto, Chairman and Chief Executive Officer of Superior Plus Corp. (a propane distribution, specialty chemicals and construction products distribution company) from July, 2006 to November, 2011 and Executive Chairman since 1998. Currently Chairman of the Board of Superior Plus Corp.
Thomas W. Buchanan[4][5] Calgary, Alberta, Canada	August 5, 2010	Chairman and Chief Executive Officer of Charger Energy Corporation (a private oil and natural gas exploration, development and production company) since October 2010; prior thereto, Chief Executive Officer of Provident Energy Trust (a diversified energy company that owned and managed an oil and gas exploration, development and production business and a, NGL infrastructure and logistics business) from March 2001 (with the title of President added in 2007).
Allan L. Edgeworth[2][4] Calgary, Alberta, Canada	July 1, 2006	President of ALE Energy Inc. (a private consulting company) since 2005; prior thereto, President and Chief Executive Office of Alliance Pipeline Ltd., from 2001 to 2004.
Randall J. Findlay[2][3] Calgary, Alberta, Canada	March 8, 2007	Corporate director; prior thereto, President of Provident Energy Trust from 2001 to 2006.
Lorne B. Gordon[1][4][5] Calgary, Alberta, Canada	October 24, 1997	Independent businessman; prior thereto, Vice Chairman of Coril Holdings Ltd. (a private investment and holding company) from 2004 to 2006 and Chief Executive Officer of Coril Holdings Ltd. from 1997 to 2004.

Name and Residence	Date Appointed	Principal Occupation During the Past Five Years
David M.B. LeGresley[2][3] Toronto, Ontario, Canada	August 16, 2010	Independent businessman since September 2008; prior thereto, Vice Chairman of National Bank Financial from 2006 to 2008 and Executive Vice President and Head of Corporate and Investment Banking of National Bank Financial from 1999 to 2006.
Robert B. Michaleski Calgary, Alberta, Canada	January 4, 2000	Chief Executive Officer of the Corporation since February 15, 2012; prior thereto, President and Chief Executive Officer of the Corporation.
Leslie A. O'Donoghue[3][5] Calgary, Alberta, Canada	December 17, 2008	Executive Vice President, Corporate Development and Strategy and Chief Risk Officer of Agrium Inc. (a retail supplier of agricultural products and services and a producer and marketer of agricultural nutrients and industrial products) since October 30, 2012; prior thereto, Executive Vice President, Operations of Agrium Inc. from April 30, 2011 to October 30, 2012; prior thereto, Chief Legal Officer and Senior Vice President, Business Development of Agrium Inc.
Jeffrey T. Smith[4][5] Calgary, Alberta, Canada	April 2, 2012	Independent businessman. Currently serves on the board of NAL Resources Limited (an oil and gas company) and Pace Oil and Gas Ltd. (an oil-weighted company).

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

Shareholders elect the directors of the Corporation at each annual meeting of the Shareholders. The directors of the Corporation serve until the next annual meeting of the Shareholders or until their successors are duly elected or appointed. All of the Corporation's directors are "independent" within the meaning of National Instrument 58–101 – *Disclosure of Corporate Governance Practices*, adopted by the Canadian Securities Administrators, with the exception of Mr. Michaleski, who is the Chief Executive Officer of the Corporation, and Mr. Buchanan, the former President and Chief Executive Officer of Provident until April 2010 (and therefore deemed non-independent until April 30, 2013). In addition, Pembina has adopted Standards for Director Independence which meet or exceed the requirements set out in National Policy 58–201 – *Corporate Governance Guidelines*, National Instrument 52–110 – *Audit Committees*, the SEC rules and regulations, the *Sarbanes-Oxley Act of 2002* and the NYSE rules.

The Board of Directors has four committees, being the Audit Committee, the Health, Safety and Environment Committee, the Human Resources and Compensation Committee and the Governance Committee. Additional information regarding the responsibilities of these committees will be contained in the Corporation's information circular for its annual meeting of Shareholders to be held on May 10, 2013.

Executive Officers of the Corporation

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

Name and Residence	Office with the Corporation	Principal Occupation During the Past Five Years
Robert B. Michaleski Calgary, Alberta, Canada	Chief Executive Officer	Chief Executive Officer of the Corporation since February 15, 2012; prior thereto, President and Chief Executive Officer of the Corporation.
Michael H. Dilger Calgary, Alberta, Canada	President and Chief Operating Officer	President and Chief Operating Officer since February 15, 2012; prior thereto, Vice President, Chief Operating Officer of the Corporation from November 2008 to February 15, 2012; prior thereto, Vice President, Business Development of the Corporation since March 2005.
Peter D. Robertson Calgary, Alberta, Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Corporation since January 2000.
Robert M. Jones Calgary, Alberta, Canada	Vice President, Crude Oil Midstream	Vice President, Midstream of the Corporation since November 2008; prior thereto, President of Merchant Energy Holdings Corp. since 2002, which provided consulting services to producers and infrastructure companies, including the Corporation from 2005 to 2008.
Stuart V. Taylor Calgary, Alberta, Canada	Vice President, Gas Services	Vice President, Gas Services of the Corporation since July 1, 2009; prior thereto, Manager, Planning of Talisman Energy Inc. since November 2003.
Paul J. Murphy Calgary, Alberta, Canada	Vice President, Conventional Pipelines	Vice President, Conventional Pipelines of the Corporation since February 14, 2011; prior thereto, Vice President, NGL Extraction of Inter Pipeline Fund since July 2004.
Debbie A. Sulkers Calgary, Alberta, Canada	Vice President, Corporate Services	Vice President, Corporate Services of the Corporation since June 2011; prior thereto Vice President, Human Resources of SemCAMS ULC (a natural gas gathering and processing company) from October 2006 to April 2011.
Harold K. Andersen Calgary, Alberta, Canada	General Counsel	General Counsel of the Corporation since December 2011; prior thereto Partner and Associate at Stikeman Elliott LLP (a law firm) from June 2000 to December 2011.
Michael A. Hantzsch Calgary, Alberta, Canada	Vice President, Oil Sands & Heavy Oil	Vice President, Oil Sands & Heavy Oil of the Corporation since April 2012; prior thereto Vice President, Business Development of Provident from January 2006 to April 2012.

Name and Residence	Office with the Corporation	Principal Occupation During the Past Five Years
Robert D. Lock Calgary, Alberta, Canada	Vice President, NGL	Vice President, NGL of the Corporation since April 2012; prior thereto, Vice President, Supply and Extraction of Provident since 2005.

As at February 28, 2013, the directors and executive officers of the Corporation beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 1,495,818 Common Shares, representing approximately 0.5 percent of the then outstanding Common Shares.

Conflict of Interest

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

AUDIT COMMITTEE INFORMATION

The Audit Committee's Charter

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

Composition of the Audit Committee and Relevant Education and Experience

The Corporation's Audit Committee is comprised of David M.B. LeGresley, as Chairman, Grant D. Billing, Randall J. Findlay and Allan L. Edgeworth, each of whom is independent and financially literate within the meaning of National Instrument 52–110 – *Audit Committees* of the Canadian Securities Administrators and in accordance with the Corporation's Standards for Director Independence available at www.pembina.com. Set forth below are additional details regarding each member of the Audit Committee.

David M.B. LeGresley

David M.B. LeGresley is the Chairman of the Audit Committee and has been a member of the Audit Committee since April 2, 2012. Mr. LeGresley is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. David LeGresley is a former executive of National Bank Financial and spent 12 years with that company, most recently serving as Vice Chairman from 2006 to 2008. Prior to that assignment he was National Bank Financial's Executive Vice President and Head of Corporate and Investment Banking (1999 to 2006); Managing Director and Head of Vancouver Investment Banking (1998 to 1999); and Managing Director, Investment Banking (1996 to 1998). Mr. LeGresley has extensive experience in the financial services industry including positions at Salomon Brothers Canada from 1990 to 1996 and CIBC Wood Gundy from 1986 to 1990. He also serves as a director of a TSX-listed company, Equitable Group Inc., as well as one private company, Woodland Biofuels Inc. He is on the advisory committee for CANFAR (the Canadian Foundation for AIDS Research). Mr. LeGresley received a Bachelor of Applied Science Degree in Engineering from the University of Toronto in 1981 and a Master of Business Administration from Harvard Business School in 1986. He is a graduate of the Institute of Corporate Directors – Rotman Directors Education Program and a member of the Institute of Corporate Directors. This business experience provides Mr. LeGresley with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Allan L. Edgeworth

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

Grant D. Billing

Grant D. Billing has been a member of the Audit Committee since April 2, 2012. Mr. Billing is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Billing was the Chairman and Chief Executive Officer of Superior Plus Corp. from 2006 to 2011, and prior thereto the Executive Chairman since 1998. Mr. Billing has extensive strategic and business experience gained over a period of more than 30 years in various CEO/senior management capacities, including as President and CEO of Norcen Energy Resources Ltd. He has served as chairman and director of a number of public companies, as well as the Canadian Association of Petroleum Producers. He is currently Chairman of the Board of Superior Plus Corp. He holds a Bachelor of Science degree from the University of Calgary. This experience, coupled with his designation as a Chartered Accountant, received in 1976, provide Mr. Billing with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Randall J. Findlay

Randall J. Findlay has been a member of the Audit Committee since April 2, 2012. Mr. Findlay is independent within the meaning of such term in National Instrument 52-110 – *Audit Committees*. Mr. Findlay is a corporate director who retired as the President of Provident Energy Trust in 2006, a position he held since March 2001. Prior thereto, he was Chief Operating Officer of Founders Energy Ltd. from December 1999 to March 2001, Senior Vice President of TransCanada Pipelines Ltd. and President and Chief Executive Officer of TransCanada Gas Processing L.P. from 1998 to 1999. Mr. Findlay holds a BASc from the University of British Columbia. He is a director of Superior Plus Inc., and is Chair of the Board of HNZ Group Inc. He is also a director of EllisDon Construction Inc., Sea NG Management Ltd., and Summerland Energy Ltd., all of which are private companies. Mr. Findlay is a Board member and past Chairman of the Alberta Children's Hospital Foundation. This academic and business experience provided Mr. Findlay with the skill set and financial literacy required to carry out his duties as a member of the Audit Committee.

Pre-Approval Policies and Procedures for Audit and Non-Audit Services

The terms of engagement of Pembina's external auditors provide that audit services provided to Pembina by the external auditors, including the budgeted fees for such audit services and the representations and disclaimer relating thereto, must be pre-approved by the entire Audit Committee.

In addition, subject to any *de minimis* exemption available under applicable laws, all permitted non-audit services provided to Pembina by its external auditors, including the terms thereof and the fees related thereto, are pre-approved by the entire Audit Committee. Notwithstanding the foregoing, the Audit Committee's Mandate permits the Audit Committee to establish policies and procedures for the pre-approval of audit and permitted non-audit services to be provided by the external auditors. In particular, the Audit Committee may delegate the ability to grant such pre-approvals to one or more members of the Audit Committee to the extent permitted by law and the terms of engagement of the external auditors, provided that any pre-approvals granted pursuant to any such delegation must be detailed as to the particular service to be provided, may not delegate Audit Committee responsibilities to management of Pembina, and must be reported to the full Audit Committee at its next scheduled meeting following such pre-approval.

External Auditor Service Fees

The following table sets out the fees billed to Pembina for professional services provided by KMPG during each of the last two financial years:

Year	AUDIT FEES[1]	AUDIT-RELATED FEES[2]	TAX FEES[3]	ALL OTHER FEES[4]
2012	$ 1,519,600	$ 35,000	$ 112,600	NIL
2011	$ 634,077	$ 16,830	$ 88,052	NIL

Notes:

(1) Audit fees were for professional services rendered by KPMG LLP for the audit of the Corporation's annual financial statements and reviews of the Corporation's quarterly financial statements, as well as services provided in connection with statutory and regulatory filings or engagements and additional fees incurred for audit services rendered in connection with the implementation of IFRS. In 2012, fees included additional expenses associated with the filing of securities and regulatory documents and associated French translations, as well as review of accounting policies, purchase price equation and prior year audit file associated with the Provident Acquisition. In 2011, fees included additional expense for the Corporation's prospectus supplement in connection with the offering of the Medium Term Notes, Series 1 and associated French translation.

(2) Audit-related fees are for assurance and related services reasonably related to the performance of the audit or review of the Corporation's financial statements and not reported under "*Audit Fees*" above. 2012 and 2011 fees included audit fees for the pension plan audit.

(3) Tax fees were for tax compliance, tax advice and tax planning. The fees were for services performed by the Corporation's auditors' tax division except those tax services related to the audit. 2012 and 2011 fees included general tax consultation and tax compliance fees incurred for preparing and filing the tax returns for the Corporation's subsidiaries.

(4) All other fees are fees for products and services provided by the Corporation's auditors other than those described as "*Audit Fees*", "*Audit-related Fees*" and "*Tax Fees*".

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the directors and executive officers of the Corporation, none of the directors or executive officers of the Corporation, and no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10 percent of the Common Shares, and no associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any material transaction with Pembina since January 1, 2010 or in any proposed transaction that would materially affect Pembina.

MATERIAL CONTRACTS

Set out below are the contracts material to the Corporation and its subsidiaries that were entered into during 2012 or are currently in effect, other than contracts entered into in the ordinary course of business:

1. the Provident Arrangement Agreement (see "*Corporate Structure – Provident Acquisition*").

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

LEGAL PROCEEDINGS

There are no outstanding legal proceedings material to the Corporation to which the Corporation or any of its direct or indirect subsidiaries is a party or in respect of which any of the properties of the Corporation or any of its direct or indirect subsidiaries are subject, nor are there any such proceedings known to be contemplated.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the Common Shares, the Convertible Debentures and Medium Term Notes is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta, Canada and Toronto, Ontario, Canada. The co-transfer agent and registrar for the Common Shares in the U.S. is Computershare Investor Services U.S., at its principal offices in Golden, Colorado, U.S.

INTERESTS OF EXPERTS

The auditors of the Corporation are KPMG LLP, Chartered Accountants, of Calgary, Alberta, Canada. KPMG LLP has confirmed that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and within the meaning of the U.S. Securities Act of 1933 and the applicable rules and regulations thereunder adopted by the SEC and the Public Company Accounting Oversight Board (United States).

Prior to the completion of the Provident Acquisition, the auditors of Provident were PricewaterhouseCoopers LLP, Chartered Accountants, of Calgary, Alberta, Canada. PricewaterhouseCoopers LLP has confirmed that they were independent with respect to Provident within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information relating to the Corporation and legacy Provident filed with the Canadian securities commissions and the SEC can be found on the Corporation's company profile on the SEDAR website at www.sedar.com, the EDGAR website at www.sec.gov, and on Pembina's website at www.pembina.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in the Corporation's information circular for its most recent annual meeting of securityholders that involved the election of directors. Furthermore, additional financial information relating to the Corporation is provided in the Corporation's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2012, which have also been filed on SEDAR and EDGAR.

Any document referred to in this Annual Information Form and described as being filed on SEDAR at www.sedar.com and on EDGAR at www.sec.gov (including those documents referred to as being incorporated by reference in this Annual Information Form) may be obtained free of charge from us by contacting our Investor Relations Department by telephone (toll free 1-855-880-7404) or by email (investor-relations@pembina.com).

APPENDIX "A"

AUDIT COMMITTEE CHARTER

I. ROLE AND OBJECTIVES

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

The objectives of the Audit Committee are:

(a) assist Board oversight of the integrity, preparation and disclosure of the financial statements and related matters;

(b) to assist Board oversight of the external auditor's qualifications, independence and performance;

(c) to assist Board oversight of Pembina's compliance with legal and regulatory requirements;

(d) to assist Board oversight of Pembina's internal audit function;

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

(f) to enhance communication between management, the external auditors, and the Board; and

(g) to discuss policies with respect to risk assessment and management.

II. MEMBERSHIP AND POLICIES

The Board, based on recommendation from the Governance Committee, will appoint members of the Audit Committee. Each member shall serve until his or her successor is appointed, unless he or she shall resign or be removed by the Board or he or she shall otherwise cease to be a director of the Corporation.

The Audit Committee must be composed of not less than three (3) members of the Board, each of whom must be independent and financially literate pursuant to the Corporation's Standards for Director Independence. In addition, at least one member must be an "audit committee financial expert" within the meaning of that term under the United States Securities Exchange Act of 1934, as amended, and the rules adopted by the United States Securities and Exchange Commission thereunder. The Board Chair, in consultation with the Governance Committee, will select the Chair of the Audit Committee from amongst its members.

The Audit Committee may at any time retain outside financial, legal or other advisors as it determines necessary to carry out its duties, at the expense of Pembina. Pembina shall provide for appropriate funding, as determined by the Audit Committee in its capacity as a committee of the Board, for payment of: (i) compensation to the external auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Pembina, (ii) compensation to any advisors employed by the Audit Committee, and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

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

The Audit Committee has neither the duty nor the responsibility to conduct audit, accounting or legal reviews, or to ensure that the Corporation's financial statements are complete, accurate and in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, which is within the framework of International Financial Reporting Standards as issued by the International Accounting Standards Board incorporated into the Canadian Institute of Chartered Accountants (CICA) Handbook - Part 1 (referred to as "GAAP"); rather, management is responsible for the financial reporting process, internal review process, and the preparation of the Corporation's financial statements in accordance with GAAP, and the Corporation's external auditors are responsible for auditing those financial statements.

III. FUNCTIONS

A External Auditor

The Audit Committee, in its capacity as a committee of the Board and subject to the rights of holders of the Corporation's shares ("Shareholders") and applicable law, is directly responsible for the overseeing the relationship of the external auditor firm with Pembina, including the appointment, termination, compensation, retention and oversight of the work of the external auditor engaged by the Corporation (including resolution of disagreements or disputes between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Pembina. The Audit Committee's selection of the external auditor is subject to approval by the Shareholders.

The external auditor will report directly to the Audit Committee.

The Audit Committee must pre-approve, subject to any *de minimis* exemption available under applicable laws, the appointment of the external auditor to provide all audit services and permitted non-audit services to be provided by the external auditor, including the terms thereof and the fees related thereto. If desired, the Audit Committee may establish detailed policies and procedures for pre-approval of the provision of audit services and permitted non-audit services by the external auditor. The Audit Committee may delegate this ability to one or more members of the Audit Committee to the extent permitted by applicable law, provided that any pre-approvals granted pursuant to any such delegation must be detailed as to the particular service to be provided, may not delegate Audit Committee responsibilities to management of Pembina, and must be reported to the full Audit Committee at its next scheduled meeting.

The Audit Committee will consider whether the provision of any non-audit services is compatible with the auditor's independence.

The Audit Committee will obtain and review at least annually a written report by the external auditor setting out the auditor's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

The Audit Committee will review and discuss with the external auditor all relationships that the external auditor and its affiliates have with Pembina and its affiliates in order to determine the external auditor's independence, including, without limitation:

(a) requesting, receiving and reviewing, on a periodic basis but at least annually, a formal written statement from the external auditor delineating all relationships that may reasonably be thought to bear on the independence of the external auditor with respect to Pembina;

(b) discussing with the external auditor any disclosed relationships or services that the external auditor believes may affect the objectivity and independence of the external auditor; and

(c) recommending that the Board take appropriate action in response to the external auditor's report to satisfy itself of the external auditor's independence.

In addition, in respect of the external auditor, the Audit Committee will:

(a) consider whether the external auditor's quality controls are compatible with the auditor's independence;

(b) evaluate, at least annually, the auditor's qualifications, performance and independence;

(c) ensure the rotation of partners on the audit engagement team of the external auditor in accordance with applicable law;

(d) review and evaluate the lead partner of the external auditor;

(e) periodically consider whether, in order to assure continuing external auditor independence, it is appropriate to adopt a policy of rotating the external auditing firm on a regular basis; and

(f) set clear hiring policies for Pembina regarding partners and employees and former partners and employees of the present and former external auditor of the Corporation (it being understood that partners and employees and former partners and employees of the present and former external auditor may not be hired by the Corporation without the prior approval of the Audit Committee); and

(g) present its conclusions with respect to the external auditor to the Board on at least an annual basis.

B Internal Auditor

The Audit Committee, in its capacity as a committee of the Board will carry out the following responsibilities with regard to the internal audit function:

(a) review with management and the head of the internal audit the charter, activities, staffing, and organizational structure of internal audit;

(b) have final authority to review and approve the annual audit plan and all major changes to the plan; and

(c) ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the head of internal audit; and

(d) on a regular basis, meet separately with the head of internal audit to discuss any matters that the Audit Committee or the head of internal audit believes should be discussed privately.

C Oversight of Financial Statements and Internal Controls and Procedures

The Audit Committee will meet with management and the external auditor to review and discuss annual and quarterly financial statements and management's discussion and analyses and earnings press releases. The Audit Committee will review and discuss the financial information to be included in public disclosure documents and determine whether to recommend to the Board that the financial statements be presented to the Board and to the Shareholders and included in public disclosure documents. In connection with these procedures, the Audit Committee will, as applicable and without limitation:

(a) review and discuss with management the type and presentation of information to be included in earnings press releases, paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided by Pembina to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made);

(b) review with management and the external auditor any material correspondence with regulators or government agencies and any employee complaints or published reports which raise issues regarding the Corporation's financial statements or accounting policies;

(c) meet periodically with the appropriate legal advisors to review material legal issues, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies;

(d) will review major issues regarding accounting principles and financial statement presentations;

(e) review analyses prepared by, and discuss with, management and the external auditor with respect to significant financial reporting issues and judgments made in connection with the preparation of Pembina's financial statements, including any significant changes in Pembina's selection or application of accounting principles, any major issues as to the adequacy of Pembina's internal controls and any special steps adopted in light of material control deficiencies;

(f) review and discuss with management and the external auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on Pembina's financial statements;

(g) review with the Chief Financial Officer (the "CFO") and the external auditor any changes in accounting policies as well as any other significant financial reporting issues; and

(h) review Pembina's financial reporting procedures and policies to ensure compliance with all legal and regulatory requirements and to investigate any non-adherence to those procedures and policies.

In addition, the Audit Committee will review and discuss a report from the external auditor at least quarterly regarding:

(a) all critical accounting policies and practices to be used;

(b) all alternative treatments of financial information within GAAP that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor; and

(c) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences.

In connection with its review of the annual audited financial statements and quarterly financial statements, the Audit Committee will also review the process for the CEO and CFO certifications with respect to the financial statements and Pembina's disclosure controls and internal controls, including any material deficiencies or changes in those controls. The Audit Committee will review the disclosures made to the Audit Committee by the Corporation's CEO and CFO during their certification process. In particular, the Audit Committee will review with the CEO, CFO, internal auditor and external auditor: (i) all significant deficiencies and material weaknesses in the design or operation of Pembina's internal control over financial reporting that could adversely affect Pembina's ability to record, process, summarize and report financial information required to be disclosed by the Corporation in the reports that it files or submits under applicable securities laws, within the required time periods, and (ii) any fraud, whether or not material, that involves management of Pembina or other employees who have a significant role in Pembina's internal control over financial reporting. In addition, the Audit Committee will review with the CEO, CFO and the internal auditor Pembina's disclosure controls and procedures and at least annually will review management's conclusions about the efficacy of disclosure controls and procedures, including any significant deficiencies or material non-compliance with disclosure controls and procedures.

The Audit Committee will also annually discuss with the external auditor whether they have become aware of any illegal acts in the course of the audit of Pembina's financial statements.

In connection with the annual audit of Pembina's financial statements, the Audit Committee will review with the external auditor:

(a) prior to commencement of the audit, plans, staffing and scope for each annual audit;

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

(c) the adequacy of internal controls;

(d) any audit problems or difficulties, including any restrictions on the scope of the external auditor's activities or on access to requested information, any significant disagreements with management, and management's response (such review should also include discussion of the responsibilities, budget and staffing of Pembina's internal audit function).

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

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

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

D Risk Management

The Audit Committee will review, discuss and monitor Pembina's major financial risk exposures, including commodity and hedging risk, and risk management and assessment policies, and the steps taken by management to monitor and control those exposures. In respect of these responsibilities, the Audit Committee must discuss guidelines and policies to govern the process by which risk assessment and management is undertaken and may develop such guidelines or policies that it deems necessary or desirable, or direct that any such guidelines or policies be developed under its supervision.

E Additional Duties and Responsibilities

The Audit Committee will also:

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

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

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

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

(e) report regularly to the Board on its activities, including the results of meetings and reviews undertaken, any issues that arise with respect to quality or integrity of the Corporation's financial statements, Pembina's compliance with legal or regulatory requirements, the performance and independence of the external audit, or the internal audit function and any associated recommendations;

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

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

(h) the Audit Committee shall meet separately with the internal auditor, periodically as the Audit Committee may deem appropriate, to consider any matter that the Audit Committee or internal auditor believes should be brought to the attention of the Board, the Audit Committee or the Shareholders;

(i) the Audit Committee shall meet separately with the external auditor, periodically as the Audit Committee may deem appropriate, to consider any matter that the Audit Committee or external auditor believes should be brought to the attention of the Board, the Audit Committee or the Shareholders; and

(j) the Audit Committee shall meet separately with the Corporation's management, periodically as the Audit Committee may deem appropriate, to consider any matter that the Audit Committee or management believes should be brought to the attention of the Board, the Audit Committee or the Shareholders.

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

IV. MEETINGS

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

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

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

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

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

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

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

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

At each meeting, the Audit Committee will meet in-camera, without management or internal or external auditors present, and will meet in separate sessions with each of the head of internal audit and the lead partner of the external auditor at least annually.

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

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

V. OTHER MATTERS

A Review of Charter

The Audit Committee shall review and reassess the adequacy of this Charter at least annually or otherwise, as it deems appropriate, and propose recommended changes to the Governance Committee.

B Reporting

The Audit Committee shall report regularly to the Board about any issues that arise with respect to the quality or integrity of the Corporation's financial statements, Pembina's compliance with legal or regulatory requirements, the performance and independence of the external auditor, or the internal audit function.

C Evaluation

The Audit Committee's performance shall be evaluated annually by the Governance Committee and the Board as part of the Board assessment process established by the Governance Committee and the Board.

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 March 1, 2013 and is supplementary to, and should be read in conjunction with, Pembina's audited consolidated annual financial statements for the years ended December 31, 2012 and 2011 ("Consolidated Financial Statements"). All dollar amounts contained in this MD&A are expressed in Canadian dollars unless otherwise noted.

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

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

On April 2, 2012, Pembina completed its acquisition of Provident Energy Ltd. ("Provident") (the "Acquisition"). The amounts disclosed herein for the three and twelve month periods ending December 31, 2012 reflect results of the post-Acquisition Pembina from April 2, 2012 together with results of legacy Pembina excluding Provident ("Legacy Pembina"), from January 1 through April 1, 2012, if applicable. The comparative figures reflect solely the 2011 results of Legacy Pembina. The results of the business acquired through the Acquisition are reported as part of the Company's Midstream business. For further information with respect to the Acquisition, please refer to Note 5 of the Consolidated Financial Statements for the year ended December 31, 2012.

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 nearly 60 years. Pembina owns and operates: pipelines that transport conventional and synthetic crude oil and natural gas liquids produced in western Canada; oil sands, heavy oil and diluent pipelines; gas gathering and processing facilities; and, an oil and natural gas liquids infrastructure and logistics business. With facilities strategically located in western Canada and in natural gas liquids 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.

Strategy

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

- Preserve value by providing safe, responsible, cost-effective and reliable services;
- Diversify Pembina'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.

Common Abbreviations

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

Measurement	
bbl	barrel
mmbbls	millions of barrels
bpd	barrels per day
mbpd	thousands of barrels per day
mboe/d	thousands of barrels of oil equivalent per day
MMcf/d	millions of cubic feet per day
bcf/d	billions of cubic feet per day
MW/h	megawatts per hour
GJ	gigajoule
km	kilometre

Other	
AECO	Alberta gas trading price
AESO	Alberta Electric Systems Operator
B.C.	British Columbia
DRIP	Premium Dividend™ and Dividend Reinvestment Plan
Frac	Fractionation
IFRS	International Financial Reporting Standards
NGL	Natural gas liquids
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
TET	Indicates product in the Texas Eastern Products Pipeline at Mont Belvieu, Texas (Non-TET refers to product in a location at Mont Belvieu other than in the Texas Eastern Products pipeline)
TSX	Toronto Stock Exchange
U.S.	United States
WCSB	Western Canadian Sedimentary Basin
WTI	West Texas Intermediate (crude oil benchmark price)

Financial & Operating Overview

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2012**	2011	**2012**	2011
Average throughput – Conventional Pipelines *(mbpd)*	**480.2**	422.8	**456.3**	413.9
Contracted capacity – Oil Sands & Heavy Oil *(mbpd)*	**870.0**	870.0	**870.0**	870.0
Average processing volume – Gas Services *(mboe/d)* net to Pembina[1]	**46.0**	45.3	**45.9**	42.3
NGL sales volume – NGL Midstream *(mbpd)*	**115.8**		**97.7**[3]	
Revenue	**1,265.7**	468.1	**3,427.4**	1,676.0
Operations	**86.0**	55.1	**271.6**	191.9
Cost of goods sold, including product purchases	**968.6**	308.0	**2,475.0**	1,072.3
Realized gain (loss) on commodity-related derivative financial instruments	**11.0**	0.9	**(4.6)**	5.3
Operating margin[2]	**222.1**	105.9	**676.2**	417.1
Depreciation and amortization included in operations	**47.8**	19.6	**173.6**	68.0
Unrealized gain (loss) on commodity-related derivative financial instruments	**(2.2)**	0.9	**36.1**	5.2
Gross profit	**172.1**	87.2	**538.7**	354.3
Deduct/(add)				
General and administrative expenses	**27.3**	21.0	**97.5**	62.2
Acquisition-related and other expense	**0.5**	0.8	**24.7**	1.4
Net finance costs	**35.7**	22.1	**115.1**	91.9
Share of loss (profit) of investments in equity accounted investee, net of tax	**0.2**	(1.5)	**1.1**	(5.8)
Income tax expense (reduction)	**27.1**	(0.2)	**75.3**	38.9
Earnings for the period	**81.3**	45.0	**225.0**	165.7
Earnings per share – basic and diluted *(dollars)*	**0.28**	0.27	**0.87**	0.99
Adjusted earnings[2]	**115.8**	43.7	**283.7**	208.9
Adjusted earnings per share[2]	**0.40**	0.26	**1.10**	1.25
Adjusted EBITDA[2]	**199.0**	88.2	**590.1**	368.6
Cash flow from operating activities	**139.5**	73.8	**359.8**	285.5
Cash flow from operating activities per share	**0.48**	0.44	**1.39**	1.71
Adjusted cash flow from operating activities[2]	**172.3**	66.0	**493.8**	305.8
Adjusted cash flow from operating activities per share[2]	**0.59**	0.39	**1.91**	1.83
Dividends declared	**118.4**	65.4	**417.6**	261.2
Dividends per common share *(dollars)*	**0.41**	0.39	**1.61**	1.56
Capital expenditures	**254.7**	148.9	**584.3**	527.6
Total enterprise value *($ billions)*[2]	**11.0**	6.6	**11.0**	6.6
Total assets *($ billions)*	**8.3**	3.3	**8.3**	3.3

(1) Gas Services processing volumes converted to mboe/d from MMcf/d at 6:1 ratio.
(2) Refer to "Non-GAAP Measures."
(3) Represents per day volumes since the closing of the Acquisition.

Revenue, net of cost of goods sold, increased over 85 percent to $297.1 million during the fourth quarter of 2012 from $160.1 million during the same period of 2011. Full year revenue, net of cost of goods sold, in 2012 was $952.4 million compared to $603.7 million in 2011. Revenue was higher in 2012 than the comparative periods in 2011 primarily due to the addition of results generated by the assets acquired through the Acquisition, which are reported in the Company's Midstream business, as well as improved performance in each of Pembina's legacy businesses, as discussed in further detail below.

Operating expenses were $86 million during the fourth quarter and $271.6 million for the full year in 2012 compared to $55.1 million and $191.9 million during the same periods in 2011. The increases were primarily due to additional costs associated with the growth in Pembina's asset base since the Acquisition and higher variable costs in each of the Company's businesses because of increased volumes.

Operating margin was $222.1 million during the fourth quarter, up almost 110 percent from the same period last year when operating margin totalled $105.9 million (operating margin is a Non-GAAP measure; see "Non-GAAP Measures"). For the year ended December 31, 2012, operating margin was $676.2 million compared to $417.1 million for the full year of 2011. These increases were primarily due to higher revenue, as discussed above.

Realized and unrealized gains/losses on commodity-related derivative financial instruments resulting from Pembina's market risk management program are primarily related to outstanding positions acquired on the closing of the Acquisition (see "Market Risk Management Program" and Note 27 to the Consolidated Financial Statements). The unrealized gain on commodity-related derivative financial instruments was $36.1 million for 2012 reflecting changes in the future NGL and natural gas price indices between April 2, 2012 and December 31, 2012 (see "Business Environment").

Depreciation and amortization (operational) increased to $47.8 million during the fourth quarter of 2012 compared to $19.6 million during the same period in 2011 and $173.6 million for the year ended December 31, 2012 compared to $68 million in 2011. Both the quarterly and full year increases reflect depreciation on new capital additions including those assets acquired through the Acquisition.

The increases in revenue and operating margin contributed to gross profit of $172.1 million during the fourth quarter and $538.7 million for the full year of 2012 compared to $87.2 million and $354.3 million for the same periods of 2011.

General and administrative expenses ("G&A") of $27.3 million were incurred during the fourth quarter of 2012 compared to $21 million during the fourth quarter of 2011. The increase, year-over-year, for the three month period was mainly due to the addition of employees who joined Pembina through the Acquisition, an increase in salaries and benefits for existing and new employees, and increased rent for expanded office space. Full year 2012 G&A totaled $97.5 million compared to $62.2 million incurred during 2011. The primary driver of the year-over-year increase in G&A was a $19.8 million increase in salaries, benefits and consulting costs, $3 million increase in rent and $3.6 million in corporate depreciation. In addition, every $1 change in share price is expected to change Pembina's annual share-based incentive expense by $1.2 million.

Pembina generated adjusted EBITDA of $199 million during the fourth quarter of 2012 compared to $88.2 million during the fourth quarter of 2011 (adjusted EBITDA is a Non-GAAP measure; see "Non-GAAP Measures"). Adjusted EBITDA for the full year of 2012 was $590.1 million compared to $368.6 million in 2011. The increase in quarterly and full year adjusted EBITDA was due to strong results from each of Pembina's legacy businesses, new assets and services having been brought on-stream, and the growth of Pembina's operations since completion of the Acquisition.

The Company's earnings were $81.3 million ($0.28 per share) during the fourth quarter of 2012 compared to $45 million ($0.27 per share) during the fourth quarter of 2011 and $225 million ($0.87 per share) for the full year of 2012 compared to $165.7 million ($0.99 per share) in 2011. These increases were the result of the Acquisition of Provident as well as improved performance in each of the Company's legacy businesses. Per share metrics were also impacted by the Acquisition.

Adjusted earnings were $115.8 million ($0.40 per share) during the fourth quarter of 2012 compared to $43.7 million ($0.26 per share) during the fourth quarter of 2011 (adjusted earnings is a Non-GAAP measure; see "Non-GAAP Measures"). For the full year of 2012, adjusted earnings totalled $283.7 million ($1.10 per share) compared to $208.9 million ($1.25 per share) in 2011. The increases in adjusted earnings were primarily due to higher operating margin, as discussed above, which was partially offset by increased depreciation and amortization (operational) resulting from a larger asset base, and higher G&A and finance costs.

Cash flow from operating activities was $139.5 million ($0.48 per share) during the fourth quarter of 2012 and $359.8 million ($1.39 per share) for the full year in 2012 compared to $73.8 million ($0.44 per share) and $285.5 million ($1.71 per share), respectively, for the comparative periods of 2011. The increases in cash flow from operating activities was primarily due to an increase in adjusted EBITDA, which was somewhat offset by acquisition-related expenses, higher interest expenses and an increase in working capital, which was partially associated with the integration of Provident.

Adjusted cash flow from operating activities was $172.3 million ($0.59 per share) during the fourth quarter of 2012, an increase of more than 160 percent, compared to $66.0 million ($0.39 per share) during the fourth quarter of 2011 (adjusted cash flow from operating activities is a Non-GAAP measure; see "Non-GAAP Measures"). Adjusted cash flow from operating activities was a record $493.8 million ($1.91 per share) during 2012 compared to $305.8 million ($1.83 per share) during 2011 and was largely driven by strong performance in each of Pembina's businesses.

Operating Results

	3 Months Ended December 31 (unaudited)				12 Months Ended December 31			
	2012		2011		2012		2011	
($ millions)	**Net Revenue[1]**	**Operating Margin[2]**	Net Revenue[1]	Operating Margin[2]	**Net Revenue[1]**	**Operating Margin[2]**	Net Revenue[1]	Operating Margin[2]
Conventional Pipelines	**99.2**	**57.9**	75.8	41.6	**338.8**	**209.3**	296.2	181.5
Oil Sands & Heavy Oil	**45.8**	**29.6**	39.7	27.3	**172.4**	**116.8**	134.9	90.9
Gas Services	**23.3**	**14.4**	19.1	13.0	**88.3**	**59.0**	71.5	49.1
Midstream	**128.8**	**119.5**	25.5	23.4	**352.9[3]**	**288.5[3]**	101.1	93.2
Corporate		**0.7**		0.6		**2.6**		2.4
Total	**297.1**	**222.1**	160.1	105.9	**952.4**	**676.2**	603.7	417.1

(1) Midstream revenue is net of $975 million in cost of goods sold, including product purchases, for the quarter ended December 31, 2012 (quarter ended December 31, 2011: $308 million) and $2,494.5 million in cost of goods sold, including product purchases, for the twelve months ended December 31, 2012 (twelve months ended December 31, 2011: $1,072.3 million).
(2) Refer to "Non-GAAP Measures."
(3) Includes results from operations generated by the acquired assets from Provident since closing of the Acquisition on April 2, 2012.

Conventional Pipelines

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2012**	2011	**2012**	2011
Average throughput *(mbpd)*	**480.2**	422.8	**456.3**	413.9
Revenue	**99.2**	75.8	**338.8**	296.2
Operations	**42.1**	35.5	**129.6**	119.1
Realized gain on commodity-related derivative financial instruments	**0.8**	1.3	**0.1**	4.4
Operating margin[(1)]	**57.9**	41.6	**209.3**	181.5
Depreciation and amortization included in operations	**7.8**	11.1	**44.0**	41.6
Unrealized gain (loss) on commodity-related derivative financial instruments	**0.8**	(0.9)	**(9.0)**	3.7
Gross profit	**50.9**	29.6	**156.3**	143.6
Capital expenditures	**88.1**	24.9	**187.3**	72.0

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

Business Overview

Pembina's Conventional Pipelines business comprises a well-maintained and strategically located 7,850 km pipeline network that extends across much of Alberta and B.C. It transports approximately half of Alberta's conventional crude oil production, about thirty percent of the NGL produced in western Canada, and virtually all of the conventional oil and condensate produced in B.C. This business' primary objective is to generate sustainable operating margin while pursuing opportunities for increased throughput and revenue. Conventional Pipelines endeavours to maintain and/or improve operating margin by capturing incremental volumes, expanding its pipeline systems, managing revenue and following a disciplined approach to its operating expenses.

Operational Performance: Throughput

During the fourth quarter of 2012, Conventional Pipelines' throughput averaged 480.2 mbpd, consisting of an average of 352.5 mbpd of crude oil and condensate and 127.7 mbpd of NGL. This was primarily due to continued production growth from regional resource plays in the Cardium (oil), Deep Basin Cretaceous (NGL), Montney (oil/NGL) and Beaverhill Lake (oil) formations and represents an increase of 14 percent compared to the same period of 2011, when average throughput was 422.8 mbpd. Producer production growth also contributed to a 10 percent increase in throughput for the full year of 2012 compared to 2011.

Financial Performance

During the fourth quarter of 2012, Conventional Pipelines generated revenue of $99.2 million compared to $75.8 million in the same quarter of the previous year. For 2012, revenue was $338.8 million compared to $296.2 million during 2011. The 31 and 14 percent increases during the respective 2012 periods were primarily due to strong volumes generated by newly connected facilities on Pembina’s Conventional Pipelines systems, as well as many deliveries being received at higher toll locations along the Company's pipeline network.

Quarterly operating expenses increased to $42.1 million compared to $35.5 million in the fourth quarter of 2011 due to higher variable costs associated with increased throughput as well as integrity and geotechnical expenditures. Operating expenses for 2012 increased to $129.6 million from $119.1 million in the same period last year. This nine percent year-over-year increase was because of the same factors that impacted quarterly operating expenses.

As a result of higher revenue, operating margin for the fourth quarter of 2012 was $57.9 million compared to $41.6 million during the same period of 2011. Full year revenue in 2012, which was offset slightly by an increase in operating expenses, increased to $209.3 million compared to $181.5 million for 2011.

Depreciation and amortization included in operations was $7.8 million during the fourth quarter of 2012 compared to $11.1 million during the fourth quarter of 2011. This decrease is due to a credit made to depreciation because of a re-measurement reduction in the decommissioning provision in excess of the carrying amount of the related asset. Depreciation and amortization included in operations for the year ended December 31, 2012 was $44 million, up from $41.6 million in 2011 due to capital additions.

For the three months ended December 31, 2012, Pembina recognized an unrealized gain on commodity-related derivative financial instruments of $0.8 million compared to an unrealized loss of $0.9 million in the fourth quarter of 2011. For the full year of 2012, Pembina recognized an unrealized loss on commodity-related derivative financial instruments of $9 million compared to an unrealized gain of $3.7 million for 2011. The 2012 unrealized loss is the result of Pembina's forward fixed-price power purchase program which is designed to mitigate operating costs fluctuations.

For the three and twelve months ended December 31, 2012, gross profit was $50.9 million and $156.3 million, respectively, compared to $29.6 million and $143.6 million, respectively, during the same periods in 2011. Higher operating margin in 2012 was partially offset by increased depreciation and amortization and unrealized losses on commodity-related derivative financial instruments.

Capital expenditures for the fourth quarter of 2012 totalled $88.1 million compared to $24.9 million during the fourth quarter of 2011, and were $187.3 million during the year compared to $72 million in 2011. The majority of the spending in 2012 related to the expansion of certain pipeline assets as described below.

New Developments: Conventional Pipelines

During 2012, Pembina saw increased volumes on its Conventional Pipelines due to the continued revitalization of many of the plays near its systems. The trend towards increased exploration, drilling and production in the WCSB has escalated over the past several years, with plays such as the Alberta Deep Basin, Cardium, Montney, Swan Hills and Duvernay being further developed by producers and offering improved recoveries with the use of innovative technology. Some of these plays were once considered mature or unviable, and others were relatively unexplored; by using horizontal drilling and multi-stage hydraulic fracturing technology, these tight and previously uneconomic portions of reservoirs began to represent attractive opportunities. For Pembina, this producer activity has meant an increase in crude oil and NGL volumes transported on its Conventional Pipeline systems and the need to complete expansions of select segments to accommodate customer demand.

- Pembina is pursuing numerous expansions on its Conventional Pipeline systems to accommodate the increased customer demand mentioned above in areas of Alberta including Dawson Creek, Grande Prairie, Kaybob and Fox Creek.
    - The expansion has been split into two phases. During the first phase, the Company completed a re-contracting initiative in 2012 on existing and new volumes on the Northern NGL System (the Peace and Northern pipelines) to underpin the system’s Phase 1 NGL expansion.

- The Company is nearing completion of the Phase 1 NGL expansion, which is expected to cost $30 million and add approximately 17 mbpd of additional NGL capacity to the Northern NGL System in the second quarter of 2013.

- The Phase 1 Peace high vapour pressure ("HVP") expansion, which requires seven new or upgraded pump stations and associated pipeline reinforcement work from west of Fox Creek to Fort Saskatchewan, will add NGL capacity of approximately 35 mbpd. Pembina expects to commission three of the pump stations by August 2013, and the remaining four stations by October 2013 at an estimated cost of $70 million.

- The Phase 1 Peace low vapour pressure ("LVP") expansion requires three upgraded pump stations and associated pipeline reinforcement work between Fox Creek and Edmonton, Alberta, and will provide an additional 40 mbpd of crude oil and condensate capacity on this segment. Pembina expects to commission one of the three pump stations by June 2013, and the remaining two stations by October 2013 at an estimated cost of $30 million.

· On February 13, 2013, Pembina announced that it had reached its contractual threshold to proceed with its previously announced plans to significantly expand its crude oil and condensate throughput capacity on its Peace Pipeline system by 55 mbpd ("Phase 2 LVP Expansion"):

  - The Phase 2 LVP Expansion is expected to accommodate increased producer crude oil and condensate volumes due to strong drilling results in the Dawson Creek, Grande Prairie and Kaybob/Fox Creek areas of Alberta. Pembina expects the total cost of the Phase 2 LVP Expansion to be approximately $250 million (including the mainline expansion and tie-ins). Subject to obtaining regulatory and environmental approvals, Pembina anticipates being able to bring the expansion into service by late-2014. Once complete, this expansion will increase LVP capacity on Pembina's Peace Pipeline to 250 mbpd. The Phase 2 LVP Expansion is underpinned by long-term fee-for-service agreements with area producers. The combined LVP expansions will increase capacity by 61 percent from current levels.

· The Company is actively working to accelerate the timing of its second previously announced NGL expansion (a portion of which is subject to reaching commercial arrangements with its customers and receipt of environmental and regulatory approvals):

  - The Phase 2 NGL Expansion to the Company's Northern NGL System will increase capacity from 167 mbpd to 220 mbpd. Pembina expects this expansion to cost approximately $415 million (including the mainline expansion and tie-ins) and to be complete in early to mid-2015.

· Conventional Pipelines is also constructing the pipeline components of the Company's Saturn and Resthaven gas plant projects. These two pipeline projects will gather NGL from the gas plants for delivery to Pembina's Peace Pipeline system. Pembina has received the required environmental and regulatory approvals, has awarded construction contracts and has begun construction on both projects.

Oil Sands & Heavy Oil

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2012**	2011	**2012**	2011
Capacity under contract *(mbpd)*	**870.0**	870.0	**870.0**	870.0
Revenue	**45.8**	39.7	**172.4**	134.9
Operations	**16.2**	12.4	**55.6**	44.0
Operating margin[(1)]	**29.6**	27.3	**116.8**	90.9
Depreciation and amortization included in operations	**5.0**	4.9	**19.8**	12.8
Gross profit	**24.6**	22.4	**97.0**	78.1
Capital expenditures	**18.3**	47.8	**30.4**	191.7

(1) Refer to "Non-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 870 mbpd of capacity under long-term, extendible contracts which provide for the flow-through of operating expenses to customers. As a result, operating margin from this business is proportionate to the amount of capital invested and is predominantly not sensitive to fluctuations in operating expenses or actual throughput.

Financial Performance

The Oil Sands & Heavy Oil business realized revenue of $45.8 million in the fourth quarter of 2012 compared to $39.7 million in the fourth quarter of 2011. This 15 percent increase is primarily due to higher flow-through operating expenses as well as higher operating margin from the Syncrude and Nipisi pipelines. Full year revenue in 2012 was $172.4 million compared to $134.9 million for 2011, largely because of contributions from the Nipisi and Mitsue pipelines which were placed into service in June and July of 2011.

Operating expenses in Pembina's Oil Sands & Heavy Oil business were $16.2 million during the fourth quarter of 2012 compared to $12.4 million during the fourth quarter of 2011, and $55.6 million for the full year of 2012 compared to $44 million in 2011. These increases primarily reflect additional operating expenses related to higher volumes being transported on the Nipisi and Mitsue pipelines compared to the same periods of the prior year.

For the three and twelve months ended December 31, 2012, operating margin increased to $29.6 million and $116.8 million compared to $27.3 million and $90.9 million, respectively, during the same periods in 2011. This is primarily due to incremental contribution from the Nipisi and Mitsue pipelines.

Depreciation and amortization included in operations for the fourth quarter of 2012 totalled $5 million compared to $4.9 million during the same period of the prior year, and $19.8 million for the twelve months of 2012 compared to $12.8 million during 2011. These increases primarily reflect the additional Nipisi and Mitsue depreciation and amortization included in operations.

For the three and twelve months ended December 31, 2012, gross profit was $24.6 million and $97 million, primarily due to higher operating margin as discussed above, compared to $22.4 million and $78.1 million, respectively, during the same periods of 2011.

For the year ended December 31, 2012, capital expenditures within the Oil Sands & Heavy Oil business totalled $30.4 million and were primarily related to Nipisi and Mitsue post-construction clean-up costs and the construction of additional pump stations on these pipelines. This compares to $191.7 million spent during the same period in 2011, the majority of which related to completing the two projects.

New Developments: Oil Sands & Heavy Oil

In 2013, Pembina plans to spend approximately $45 million to increase capacity on the Nipisi and Mitsue pipelines by 12 mbpd and 4 mbpd, respectively, while also increasing connectivity in the Edmonton area.

Pembina continues to actively work with customers on oil sands and heavy oil related solutions. With the Acquisition of Provident, the Company has increased its access to diluent supply and can offer customers condensate and butane products from various sources including Pembina's conventional systems, the Redwater fractionator, rail imports and truck racks.

Gas Services

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except where noted)	**2012**	2011	**2012**	2011
Average processing volume *(MMcf/d)* net to Pembina	**276.0**	271.5	**275.2**	253.8
Average processing volume *(mboe/d)* [1] net to Pembina	**46.0**	45.3	**45.9**	42.3
Revenue	**23.3**	19.1	**88.3**	71.5
Operations	**8.9**	6.1	**29.3**	22.4
Operating margin[2]	**14.4**	13.0	**59.0**	49.1
Depreciation and amortization included in operations	**3.7**	2.6	**14.5**	9.9
Gross profit	**10.7**	10.4	**44.5**	39.2
Capital expenditures	**77.2**	66.4	**162.8**	136.5

(1) Average processing volume converted to mboe/d from MMcf/d at a 6:1 ratio.
(2) Refer to "Non-GAAP Measures."

Business Overview

Pembina's operations include a growing natural gas gathering and processing business. Located approximately 100 km south of Grande Prairie, Alberta, Pembina's key revenue-generating Gas Services assets form the Cutbank Complex which comprises three sweet gas processing plants with 425 MMcf/d of processing capacity (368 MMcf/d net to Pembina), a 205 MMcf/d ethane plus extraction facility, as well as approximately 350 km of gathering pipelines. The Cutbank Complex is connected to Pembina's Peace Pipeline system and serves an active exploration and production area in the WCSB. Pembina has initiated construction on two projects in its Gas Services business, the Saturn and Resthaven enhanced NGL extraction facilities, to meet the growing needs of producers in west central Alberta.

Financial Performance

Gas Services recorded an increase in revenue of 22 percent during the fourth quarter of 2012, contributing $23.3 million compared to $19.1 million in the fourth quarter of 2011. For the full year of 2012, revenue was $88.3 million compared to $71.5 million in 2011. These increases primarily reflect higher processing volumes at Pembina's Cutbank Complex. Average processing volumes, net to Pembina, were 276 MMcf/d during the fourth quarter of 2012, approximately 2 percent higher than the 271.5 MMcf/d processed during the fourth quarter of the previous year. Full year volumes averaged 275.2 MMcf/d, up approximately 8 percent from 2011 when average volumes were 253.8 MMcf/d.

During the fourth quarter of 2012, operating expenses were $8.9 million compared to $6.1 million incurred in the fourth quarter of 2011. Full year operating expenses in 2012 totalled $29.3 million, up from $22.4 million during the prior year. The quarterly and full year increases were mainly due to variable costs incurred to process higher volumes at the Cutbank Complex as well as additional costs associated with running the Musreau shallow cut expansion and deep cut facilities.

As a result of processing higher volumes at the Cutbank Complex and additional processing associated with the Musreau deep cut facility, Gas Services realized operating margin of $14.4 million in the fourth quarter compared to $13 million during the same period of the prior year. On a full year basis, Gas Services generated $59 million in operating margin in 2012 compared to $49.1 million in 2011. Of the $9.9 million increase, the Musreau deep cut facility contributed $6.7 million.

Depreciation and amortization included in operations during the fourth quarter of 2012 totalled $3.7 million, up from $2.6 million during the same period of the prior year, primarily due to higher in-service capital balances from additions to the Cutbank Complex (including the Musreau deep cut facility and shallow cut expansion). For the same reason, depreciation and amortization included in operations totalled $14.5 million in 2012 compared to $9.9 million in 2011.

For the three months ended December 31, 2012, gross profit was $10.7 million compared to $10.4 million in the same period of 2011, and was $44.5 million for the full year of 2012 compared to $39.2 million in 2011. These increases reflect higher operating margin during the periods which was partially offset by increased depreciation and amortization included in operations as discussed above.

For the year ended December 31, 2012, capital expenditures within Gas Services totalled $162.8 million compared to $136.5 million during the same period of 2011. This increase was because of the spending required to complete the Musreau deep cut facility, the expansion of the shallow cut facility at the Cutbank Complex as well as capital expenditures incurred to progress the Saturn and Resthaven enhanced NGL extraction facilities.

New Developments: Gas Services

Pembina continues to see significant growth opportunities resulting from the trend towards liquids-rich natural gas drilling and the extraction of valuable NGL from natural gas in the WCSB. Pembina expects the expansions detailed below (some of which were completed in 2012) to bring the Company's Gas Service's processing capacity to 903 MMcf/d (net). This includes enhanced NGL extraction capacity of approximately 535 MMcf/d (net). These volumes would be processed on a contracted, fee-for-service basis and are expected to result in approximately 45 mbpd of incremental NGL to be transported for additional toll revenue on Pembina's conventional pipelines by early 2014.

During the year, Pembina completed two expansions at its Musreau gas plant, part of the Cutbank Complex: the 205 MMcf/d enhanced NGL extraction deep cut facility and the 50 MMcf/d shallow cut expansion. With these two expansions in place, the Cutbank Complex now has an aggregate raw shallow gas processing capacity of 425 MMcf/d (368 MMcf/d net to Pembina), an increase of 13 percent net to Pembina.

Pembina's Gas Services business is also constructing two new fully contracted facilities and associated infrastructure: the Saturn facility – a $200 million 200 MMcf/d enhanced NGL extraction facility (includes conventional pipeline tie-ins) in the Berland area of west central Alberta; and, the Resthaven facility – a $230 million 200 MMcf/d combined shallow cut and deep cut NGL extraction facility (includes conventional pipeline tie-ins) in the Resthaven, Alberta area.

Pembina expects the Saturn facility and associated pipelines to be in service in the fourth quarter of 2013. Once operational, Pembina expects the Saturn facility will have the capacity to extract up to 13.5 mbpd of NGL.

For the Resthaven facility, Pembina is modifying and expanding an existing gas plant, and is constructing a pipeline to transport the extracted NGL from the Resthaven facility to its Peace Pipeline system. Pembina will own approximately 65 percent of the Resthaven facility and 100 percent of the NGL pipeline. Pembina expects the Resthaven facility and associated pipelines to be in service in the third quarter of 2014 due to potential scope changes from the original project. Once operational, Pembina expects the Resthaven facility will have the capacity to extract up to 13 mbpd of NGL.

Construction on both facilities is underway, with over 95 percent of the major equipment ordered and on-site at the Saturn facility and over 80 percent of the major equipment ordered for the Resthaven facility.

Midstream[1]

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31[2]	
($ millions, except where noted)	**2012**	2011	**2012**	2011
Revenue	**1,103.7**	333.5	**2,847.4**	1,173.5
Operations	**19.4**	1.7	**59.7**	8.8
Cost of goods sold, including product purchases	**975.0**	308.0	**2,494.5**	1,072.4
Realized gain (loss) on commodity-related derivative financial instruments	**10.2**	(0.4)	**(4.7)**	0.9
Operating margin[3]	**119.5**	23.4	**288.5**	93.2
Depreciation and amortization included in operations	**31.3**	0.9	**95.3**	3.6
Unrealized gain (loss) on commodity-related derivative financial instruments	**(3.0)**	1.7	**45.1**	1.4
Gross profit	**85.2**	24.2	**238.3**	91.0
Capital expenditures	**77.4**	4.6	**204.0**	111.5

(1) Share of profit from equity accounted investees not included in these results.
(2) Includes results from NGL midstream since the closing of the Acquisition.
(3) Refer to "Non-GAAP Measures."

Business Overview

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

- Crude oil midstream targets oil and diluent-related opportunities from key sites across Pembina's network, which comprises 15 truck terminals (including one capable of emulsion treating and water disposal), terminalling at downstream hub locations, storage, and the Pembina Nexus Terminal ("PNT"). PNT includes: 21 inbound pipelines connections, 13 outbound pipelines connections, an excess of 1.2 million bpd of crude oil and condensate connected to the terminal, and 310,000 barrels of surface storage.

- NGL midstream, which Pembina acquired through the Acquisition, includes two NGL operating systems, Redwater West and Empress East:

- The Redwater West NGL system includes the Younger extraction and fractionation facility in B.C.; the recently expanded 73,000 bpd Redwater NGL fractionator, 6.8 mmbbls of cavern storage and terminalling facilities at Redwater, Alberta; and, third-party fractionation capacity in Fort Saskatchewan, Alberta.

- The Empress East NGL system includes a 2.1 bcf/d interest in the straddle plants at Empress, Alberta; 20,000 bpd of fractionation capacity as well as 1.1 mmbbls of cavern storage in Sarnia, Ontario; and, approximately 5 mmbbls of hydrocarbon storage at Corunna, Ontario.

Financial Performance

In the Midstream business, revenue, net of cost of goods sold, grew to $128.8 million during the fourth quarter of 2012 from $25.5 million during the fourth quarter of 2011. Full year revenue, net of cost of goods sold, in 2012 was $352.9 million compared to $101.1 million in 2011. These increases were primarily due to the addition of the NGL midstream business acquired through the Acquisition and increased activity on Pembina's pipeline systems.

Operating expenses during the fourth quarter of 2012 were $19.4 million compared to $1.7 million in the fourth quarter of 2011, and were $59.7 million for the full year 2012 compared to $8.8 million in 2011. Operating expenses for the quarter and the year were higher due to the increase in Midstream's asset base since the Acquisition.

Operating margin was $119.5 million during the fourth quarter of 2012 compared to $23.4 million during the fourth quarter of 2011. Operating margin for the 2012 year was $288.5 million compared to $93.2 million in 2011. These increases were largely due to the same factors that contributed to the increase in revenue, net of cost of goods sold, as discussed above.

Depreciation and amortization included in operations during the fourth quarter of 2012 totalled $31.3 million compared to $0.9 million during the same period of the prior year. Full year 2012 depreciation and amortization included in operations totalled $95.3 million compared to $3.6 million in 2011. Both increases reflect the additional Midstream assets since the closing of the Acquisition.

For the three months ended December 31, 2012, unrealized losses on commodity-related derivative financial instruments were $3 million. For the full year, there was a gain of $45.1 million. These amounts reflect fluctuations in the future NGL and natural gas price indices during the periods (see "Market Risk Management Program" and Note 27 to the Consolidated Financial Statements).

For the three and twelve months ended December 31, 2012, gross profit in this business increased to $85.2 million and $238.3 million, respectively, from $24.2 million and $91 million, respectively, during the same periods in 2011. This is due to the addition of assets acquired through the Acquisition and higher operating margin generated by Pembina's legacy midstream operations.

For the year ended December 31, 2012, capital expenditures within the Midstream business totalled $204 million and were primarily related to cavern development and associated infrastructure as well as fractionation capacity expansion at the Redwater facility by approximately 8,000 bpd. This compares to capital expenditures of $111.5 million during 2011, which included the acquisition of a terminalling and storage facility near Edmonton, Alberta and linefill for the Peace Pipeline.

Crude Oil Midstream

Operating margin for the Company's crude oil midstream activities during the fourth quarter of 2012 was $44.7 million compared to $23.4 million during the fourth quarter of 2011. For the year ended December 31, 2012, operating margin was $132.1 million, representing an increase of 42 percent from $93.2 million in the same period last year. Strong fourth quarter and full year 2012 results were primarily due to higher volumes and increased activity on Pembina's pipeline systems, wider margins, as well as opportunities associated with enhanced connectivity at the PNT added in the first quarter of 2012. Throughput at the crude oil midstream truck terminals increased by 18 percent compared to the end of 2011 to exit 2012 at 80,000 bpd.

NGL Midstream

Operating margin for Pembina's NGL midstream activities was $74.8 million for the fourth quarter and $156.4 million year-to-date since the closing of the Acquisition, including a $5.8 million year-to-date realized loss on commodity-related derivative financial instruments (see "Market Risk Management Program").

NGL sales volumes during the fourth quarter of 2012 were 115.8 mbpd and 97.7 mbpd since the closing of the Acquisition.

Redwater West

Redwater West purchases NGL mix from various natural gas and NGL producers and fractionates it into finished products at fractionation facilities near Fort Saskatchewan, Alberta. Redwater West also includes NGL production from the Younger NGL extraction and fractionation plant (Taylor, B.C.) that provides specification NGL to B.C. markets. Also located at the Redwater facility are Pembina's industry-leading rail-based terminal and more than 6.8 mmbbls of underground hydrocarbon cavern storage, both of which service Pembina's proprietary and customer needs. Pembina's condensate terminal is the largest of its kind in western Canada.

Operating margin during the fourth quarter of 2012, excluding realized losses from commodity-related derivative financial instruments, was $49.1 million. Year-to-date since closing of the Acquisition, operating margin, excluding realized losses from commodity-related derivative financial instruments, was $131.9 million. Realized propane margins were impacted by weak 2012 market prices and decreased gas volumes at the Younger plant during the year. Overall, Redwater West NGL sales volumes averaged 59.1 mbpd since closing of the Acquisition.

Empress East

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 pipelines to Sarnia, Ontario for fractionation and storage of specification products. Propane and butane are sold into central Canadian and eastern U.S. markets. Demand for propane is seasonal; 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.

Operating margin during the fourth quarter of 2012, excluding realized losses from commodity-related derivative financial instruments, was $16.5 million. Year-to-date since closing of the Acquisition, operating margin, excluding realized losses from commodity-related derivative financial instruments, was $30.3 million. Results were impacted by low sales volumes, soft 2012 propane prices and high extraction premiums, but were offset by strong refinery demand for butane and low AECO natural gas prices since the Acquisition. Overall, Empress East NGL sales volumes averaged 38.6 mbpd since closing of the Acquisition.

New Developments: Midstream

As a result of the Acquisition, Pembina's midstream asset base has grown substantially. Future prospects related to this business now span across the crude oil and NGL value chains. The capital being deployed in the Midstream business is primarily directed towards fee-for-service projects which are expected to continue to increase its stability and predictability.

Pembina continues to advance a number of initiatives, as follows:

- As part of its full service terminal ("FST") development program, Pembina will be putting two new facilities into service in 2013. This includes a joint venture FST in the Judy Creek area of Alberta to serve the production from Beaverhill Lake and Swan Hills and a second FST that serves producers in the Cynthia area west of Drayton Valley. Pembina continues to advance other prospects for approval in 2013 and development in 2014.

- During 2013, Pembina will enhance the connectivity of PNT, both to third-party infrastructure and to the Company's own facilities between Edmonton and Fort Saskatchewan. Pembina will be adding a truck terminal and constructing storage which will come on stream in 2015. Pembina will also commission the first phase of a crude oil rail loading facility. This latter project will capitalize on synergies between capabilities and expertise acquired with Provident and the crude oil midstream business.

- During 2012, Pembina successfully completed and commissioned an 8,000 bpd expansion at the Redwater fractionator, which required a 20-day turn-around of the facility in September. The project was completed on schedule and under budget. Also at Redwater, Pembina is currently in discussions with customers and completing preliminary engineering work to advance its proposed new 73,000 bpd ethane plus fractionator at its site. This fractionator would essentially duplicate the existing fractionator, and is being pursued by the Company to help ease anticipated fractionation capacity constraints in the Fort Saskatchewan, Alberta area.

- In September of 2012, Pembina brought the first of seven fee-for-service caverns into service at its Redwater site. Three additional caverns are completed and Pembina is in the process of preparing them for service. Pembina expects to be able to bring two caverns into service in March 2013, and the third cavern into service in June 2013.

- During the second quarter, Pembina entered into an agreement with a joint venture partner and a third-party producer to tie in its production of up to 60 MMcf/d and backstop a $12 million natural gas lateral connection to the Younger plant by the first quarter of 2013. Pembina's share of NGL extracted from this expanded gathering footprint will be incremental supply to Pembina's marketing portfolio in both Taylor, B.C. and Fort Saskatchewan, Alberta.

- Given the oversupply of propane in western Canada and North America at large, and the associated pricing imbalance, Pembina is investigating opportunities for offshore propane export which would leverage its existing assets and help provide a solution for Canadian producers.

Market Risk Management Program

Pembina is exposed to frac spread risk, which is the difference between the selling price for propane-plus liquids and the input cost of natural gas required to produce respective NGL products. Pembina has a risk management program and uses derivative financial instruments to mitigate frac spread risk, when possible, to safeguard a base level of operating cash flow that covers the input cost of natural gas. Pembina has entered into derivative financial swap contracts to protect the frac spread and product margin, and to manage exposure to power costs, interest rates and foreign exchange rates.

Pembina's credit policy mitigates risk of non-performance by counterparties of its derivative financial instruments. Activities undertaken to reduce risk include: regularly monitoring counterparty exposure to approved credit limits; financial reviews of all active counterparties; entering into International Swap Dealers Association agreements; and, obtaining financial assurances where warranted. In addition, Pembina has a diversified base of available counterparties.

Management continues to actively monitor commodity price risk and mitigate its impact through financial risk management activities. A summary of Pembina's current financial derivative positions is available on Pembina's website at www.pembina.com.

A summary of Pembina's risk management contracts executed during the fourth quarter of 2012 is contained in the following table:

Transactions entered into during the fourth quarter

Year	Commodity	Description	Volume (Buy)/Sell	Effective Period
2013	Natural Gas	CDN $3.29 per gj (1)(6)	(19,500)gjpd	April 1 - October 31
	Crude Oil	US $89.32 per bbl (2)(6)	675bpd	April 1 - October 31
		CDN $86.43 per bbl (2)(8)	10,150bpd	January 1 - January 31
	Propane	US $0.955 per gallon (3)(6)	528bpd	April 1 - December 31
	Normal Butane	US $1.507 per gallon (4)(6)	500bpd	April 1 - October 31
	ISO Butane	US $1.636 per gallon (5)(6)	250bpd	April 1 - October 31
	Foreign Exchange	Sell US $8,400,000 @ 0.9956 (7)		April 1 - October 31
		Sell US $20,850,000 @ 0.9979 (7)		April 1 - December 31
2014	Propane	US $0.955 per gallon (3)(6)	745bpd	January 1 - March 31
	Foreign Exchange	Sell US $2,700,000 @ 0.9979 (7)		January 1 - March 31

(1) Natural gas contracts are settled against Canadian Gas Price Reporter AECO's monthly index.
(2) Crude oil contracts are settled against NYMEX WTI calendar average in U.S. or CDN dollars.
(3) Propane contracts are settled against OPIS Mont Belvieu C3 TET.
(4) Normal butane contracts are settled against OPIS Mont Belvieu NC4 NON TET.
(5) ISO butane contracts are settled against OPIS Mont Belvieu IC4 NON TET.
(6) Frac spread contracts entered into to manage revenue and costs associated with natural gas based supply arrangements.
(7) U.S. dollar forward contracts are settled against the Bank of Canada noon rate average. Selling notional U.S. dollars for Canadian dollars at a fixed exchange rate results in a fixed Canadian dollar price for the underlying commodity.
(8) Product margin contracts entered into to protect margins on commodity contracts.

The following table summarizes the impact of commodity-related derivative financial contracts settled during 2012 and 2011 which were included in the realized gain/loss on commodity-related derivative financial instruments:

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions)	**2012**	2011	**2012**	2011
Realized gain (loss) on commodity-related derivative financial instruments				
Frac spread related	**5.7**		**(4.5)**	
Product margin	**4.2**	(0.4)	**(0.2)**	0.9
Power	**1.1**	1.3	**0.1**	4.4
Realized gain (loss) on commodity-related derivative financial instruments	**11.0**	0.9	**(4.6)**	5.3

The realized gain on commodity-related derivative financial instruments for the fourth quarter of 2012 was $11 million compared to a realized gain of $0.9 million in the comparable period of 2011. The majority of the realized gain in the fourth quarter of 2012 was driven by NGL derivative sales contracts settling at contracted prices higher than the current NGL market prices during the settlement period and was partially offset by natural gas derivative purchase contracts settling at contracted prices higher than the market natural gas prices during the settlement period. For the year ended December 31, 2012, the Company recognized a realized loss on commodity-related derivative financial instruments of $4.6 million which reflects natural gas derivative purchase contracts settling at contracted prices higher than the market natural gas prices during the settlement period.

For more information on financial instruments and financial risk management, see Note 27 to the Consolidated Financial Statements.

Business Environment

	3 Months Ended December 31			12 Months Ended December 31		
	2012	2011	% Change	**2012**	2011	% Change
WTI crude oil *(U.S. $ per bbl)*	**$ 88.18**	$ 94.06	(6)	**$ 94.21**	$ 95.12	(1)
Exchange rate *(from U.S.$ to Cdn$)*	**$ 0.99**	$ 1.03	3	**$ 1.00**	$ 0.99	(1)
WTI crude oil *(expressed in Cdn$ per bbl)*	**$ 87.31**	$ 96.68	(10)	**$ 94.12**	$ 94.21	
AECO natural gas index (Cdn$ per GJ)	**$ 2.90**	$ 3.29	(12)	**$ 2.28**	$ 3.48	(34)
Mont Belvieu Propane *(U.S.$ per U.S. gallon)*	**$ 0.88**	$ 1.44	(39)	**$ 1.00**	$ 1.47	(32)
Mont Belvieu Propane expressed as a percentage of WTI	**42%**	64%	(34)	**45%**	65%	(31)
Market Frac Spread in Cdn$ per bbl [(1)]	**$ 38.61**	$ 58.41	(34)	**$ 44.70**	$ 54.67	(18)

(1) Market frac spread is determined using average spot prices at Mont Belvieu, weighted based on 65 percent propane, 25 percent butane and 10 percent condensate, and the AECO monthly index price for natural gas.

Overall, weaker commodity markets impacted the performance of broader market indices. During the fourth quarter of 2012, the S&P TSX Composite Index saw a one percent increase compared to the previous quarter, with the value of the Index also realizing a four percent increase over 2011.

The Canadian dollar declined modestly against the U.S. dollar during most of the fourth quarter, averaging $0.99 per U.S. dollar; however, it was stronger than an average value of $1.03 per U.S. dollar during the fourth quarter of 2011.

With respect to commodity prices:

- The benchmark WTI oil price exited 2012 at U.S. $91.82/bbl, with prices remaining range-bound after recovering from lows set earlier in the year. The Canadian heavy crude oil benchmark differential, Western Canadian Select, compared to WTI widened significantly in the fourth quarter as infrastructure constraints were aggravated by continued production growth from the WCSB. Compared to $17.17 per barrel differential in 2011, the Western Canadian Select differential averaged $25.23 in 2012.

- Natural gas prices posted strong gains in the fourth quarter as more seasonal temperatures returned to North America. An abnormally warm 2011/2012 winter depressed pricing through the first half of 2012 resulting in a full year average of $2.28 compared to $3.48 in 2011. While low natural gas prices are generally favourable for NGL extraction and fractionation economics, a sustained low gas price could impact the availability and overall cost of natural gas and NGL mix supply in western Canada with the potential for natural gas producers to elect to shut-in production or reduce drilling activities.

- NGL prices in the fourth quarter of 2012 were mixed across products and continued to be negatively impacted by a warm 2011/2012 winter and increasing production. This resulted in a North American supply-demand imbalance.

- In the U.S., industry propane/propylene inventories were approximately 66.7 million barrels at the end of 2012 (approximately 15.9 million barrels or 31 percent above the five-year historical average for this period).
- In Canada, industry propane inventories increased to 8.7 million barrels at the end of 2012 (2.5 million barrels, or 40 percent higher, than the historic five-year average).
- This over-supply continues to exert pressure on prices, where the Mont Belvieu propane price averaged U.S. $0.88 per U.S. gallon (42 percent of WTI) in the fourth quarter of 2012 and U.S. $1.00 per U.S. gallon (44 percent of WTI) for the full year, significantly below its five-year average of 58 percent of WTI.
- Butane and condensate sales prices were robust in the fourth quarter; however, price levels remained below those of 2011.
- Market frac spreads averaged $38.61 per barrel and $44.70 per barrel during the fourth quarter and full year of 2012, respectively, compared to $58.41 per barrel and $54.67 per barrel during the same periods of the prior year. The market frac spread does not include extraction premiums, operating/transportation/storage costs and regional sales prices.

The outlook for the energy infrastructure sector in the WCSB remains positive for all of Pembina's businesses. Strong activity levels within the oil sands region represent opportunities for the Company to leverage existing assets to capitalize on additional growth opportunities. Pembina also continues to benefit from the combination of relatively high oil prices and low natural gas prices, which has resulted in oil and gas producers continuing to extract the liquids value from their natural gas production and favouring liquids-rich natural gas plays over dry natural gas. Pembina's Conventional Pipelines, Gas Services and Midstream businesses are well-positioned to capitalize on the increased activity levels in key NGL-rich producing basins. Crude oil and NGL plays being developed in the vicinity of Pembina’s pipelines include the Cardium, Montney, Cretaceous, Duvernay and Swan Hills. While recent weaknesses in NGL prices and crude oil differentials as well as an inflationary cost environment have resulted in some producers scaling back activity in the WCSB, Pembina expects to see a continued positive growth profile for energy infrastructure.

Non-Operating Expenses

G&A

Pembina incurred G&A (including corporate depreciation and amortization) of $27.3 million during the fourth quarter of 2012 compared to $21 million during the fourth quarter of 2011. G&A for the year was $97.5 million compared to $62.2 million in 2011. The increase in G&A compared to the prior year is mainly due to the addition of employees who joined Pembina through the Acquisition, an increase in salaries and benefits for existing and new employees, and increased rent for expanded office space. In addition, every $1 change in share price is expected to change Pembina's annual share-based incentive expense by $1.2 million.

Depreciation & Amortization (operational)

Operational depreciation and amortization increased to $47.8 million during the fourth quarter of 2012 compared to $19.6 million during the same period in 2011. For the year ended December 31, 2012, operational depreciation and amortization was $173.6 million, up from $68 million last year. Both increases reflect depreciation on new property, plant and equipment and depreciable intangibles including those assets acquired through the Acquisition.

Acquisition-Related and Other

Acquisition-related and other expenses during the fourth quarter of 2012 were $0.5 million compared to $0.8 million in 2011. For the year ended December 31, 2012, acquisition-related and other expenses were $24.7 million which includes acquisition expenses of $15.9 million and $8.2 million due to the required make whole payment for the redemption of the senior secured notes from the first quarter of the year. See "Liquidity and Capital Resources."

Net Finance Costs

Net finance costs in the fourth quarter of 2012 were $35.7 million compared to $22.1 million in the fourth quarter of 2011. Net finance costs for the full year of 2012 totalled $115.1 million compared to $91.9 million in 2011. The increases primarily relate to a $16.2 million year-over-year increase in loans and borrowings interest expense due to higher debt balances and an increase in interest on convertible debentures totalling $17.9 million due to the debentures assumed on closing of the Acquisition. These factors were offset by an $11.7 million increase in the change in the fair value of non-commodity-related derivative financial instruments for the year when compared to the same period in 2011. (See Notes 21 and 27 to the Consolidated Financial Statements for the year ended December 31, 2012.) Beginning in the second quarter of 2012, the change in fair value of commodity-related derivative financial instruments was reclassified from net finance costs to gain/loss on commodity-related derivative financial instruments and is included in operational results.

Income Tax Expense

Deferred income tax expense arises from the difference between the accounting and tax basis of assets and liabilities. An income tax expense of $27.1 million was recorded in the fourth quarter of 2012 compared to a reduction of $0.2 million in the fourth quarter of 2011. Income tax expense in 2012 totalled $75.3 million compared to $38.9 million in 2011, which includes changes in estimates from the prior year.

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 employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. At the end of 2012, the pension plans carried a deficit of $27.6 million compared to a deficit of $15.8 million at the end of 2011. At December 31, 2012, plan obligations amounted to $128 million (2011: $105.2 million) compared to plan assets of $100.4 million (2011: $89.4 million). In 2012, the pension plans' expense was $7.2 million (2011: $4.7 million). Contributions to the pension plans totaled $10 million in 2012 and $8 million in 2011.

In 2013, contributions to the pension plans are expected to be $12.6 million and pension plans' expenses are anticipated to be $10.6 million. Management anticipates a long-term return on the pension plans' assets of 5.8 percent and an annual increase in compensation of 4 percent, which are consistent with current industry standards.

Liquidity & Capital Resources

($ millions)	**December 31, 2012**	December 31, 2011
Working capital	**62.7**	(343.7)(1)
Variable rate debt(2)		
Bank debt	**525.0**	313.8
Variable rate debt swapped to fixed	**(380.0)**	(200.0)
Total variable rate debt outstanding (average rate of 2.94%)	**145.0**	113.8
Fixed rate debt(2)		
Senior secured notes		58.0
Senior unsecured notes	**642.0**	642.0
Senior unsecured term debt	**75.0**	75.0
Senior unsecured medium-term-note 1	**250.0**	250.0
Senior unsecured medium-term-note 2	**450.0**	
Subsidiary debt	**9.3**	
Variable rate debt swapped to fixed	**380.0**	200.0
Total fixed rate debt outstanding (average of 4.90%)	**1,806.3**	1,225.0
Convertible debentures(2)	**644.3**	299.8
Finance lease liability	**5.8**	5.6
Total debt and debentures outstanding	**2,601.4**	1,644.2
Cash and unutilized debt facilities	**1,032.3**	235.1

(1) As at December 31, 2011, working capital includes $310 million of current, non-revolving, unsecured credit facilities.
(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. In the short-term, Pembina expects to source funds required for capital projects from cash and cash equivalents and unutilized debt facilities totalling $1,032.3 million as at December 31, 2012. In addition, based on its successful access to financing in the debt and equity markets during the past several years, Pembina believes it would likely continue to have access to funds at attractive rates. Pembina has also reinstated its DRIP as of the January 25, 2012 dividend record date to help fund its ongoing capital program (see "Trading Activity and Total Enterprise Value" for further details). 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 equity.

In connection with the closing of the Acquisition on April 2, 2012, Pembina increased its $800 million facility to $1.5 billion for a term of five years. Upon closing of the Acquisition, Pembina used the facility, in part, to repay Provident's revolving term credit facility of $205 million. Further, Pembina renegotiated its operating facility to $30 million from $50 million.

Pembina's credit facilities at December 31, 2012 consisted of an unsecured $1.5 billion revolving credit facility due March 2017 and an operating facility of $30 million due July 2013. Borrowings on the revolving credit facility and the operating facility bear interest at prime lending rates plus nil percent to 1.25 percent or Bankers' Acceptances rates plus 1.00 percent 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, 2012, Pembina had $525 million drawn on bank debt, $0.1 million in letters of credit and $27.3 million in cash, leaving $1,032.3 million of unutilized debt facilities on the $1,530 million of established bank facilities. Pembina also had an additional $14.3 million in letters of credit issued in a separate demand letter of credit facility. Other debt includes $75 million in senior unsecured term debt due 2014; $175 million in senior unsecured notes due 2014; $267 million in senior unsecured notes due 2019; $200 million in senior unsecured notes due 2021; $250 million in senior unsecured medium-term notes due 2021; and $450 million in senior unsecured medium-term notes due 2022. On April 30, 2012, the senior secured notes were redeemed. Pembina has recognized $8.2 million due to the associated make whole payment, which has been included in acquisition-related and other expenses in the first quarter of the year. At December 31, 2012, Pembina had loans and borrowing (excluding amortization, letters of credit and finance lease liabilities) of $1,951.3 million. Pembina's senior debt to total capital at December 31, 2012 was 28 percent.

Offering of Medium-Term Notes

On October 22, 2012, Pembina closed the offering of $450 million principal amount of senior unsecured medium-term notes ("Notes"). The Notes have a fixed interest rate of 3.77% per annum, paid semi-annually, and will mature on October 24, 2022. The net proceeds from the offering of the Notes were used to repay a portion of Pembina's existing credit facility. Standard & Poor's Rating Services ("S&P") and DBRS Limited ("DBRS") have assigned credit ratings of BBB to the Notes.

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 to, and the associated costs of, entering 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 judgement circumstances so warrant.

DBRS rates Pembina's senior unsecured notes 'BBB'. S&P's long-term corporate credit rating on Pembina is 'BBB'.

Assumption of rights related to the Series E and Series F Debentures

On closing of the Acquisition on April 2, 2012, Pembina assumed all of the rights and obligations of Provident relating to the 5.75 percent convertible unsecured subordinated debentures maturing December 31, 2017 (TSX: PPL.DB.E), and the 5.75 percent convertible unsecured subordinated debentures maturing December 31, 2018 (TSX: PPL.DB.F). Outstanding Series E and Series F debentures at April 2, 2012 were $345 million. As of December 31, 2012, $344.6 million of the debentures are still outstanding.

Capital Expenditures

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions)	**2012**	2011	**2012**	2011
Development capital				
Conventional Pipelines	**88.1**	24.9	**187.3**	72.0
Oil Sands & Heavy Oil	**18.3**	47.8	**30.4**	191.7
Gas Services	**77.2**	66.4	**162.8**	136.5
Midstream	**77.4**	4.6	**204.0**	111.5
Corporate/other projects	**(6.3)**	5.2	**(0.2)**	15.9
Total development capital	**254.7**	148.9	**584.3**	527.6

During 2012, capital expenditures were $584.3 million compared to $527.6 million in 2011. In the comparable period in 2011, the Company's capital expenditures included the construction of the Nipisi and Mitsue pipelines, the acquisition of midstream assets in the Edmonton, Alberta area (related to PNT), linefill for the Peace Pipeline system as well as construction of the Musreau deep cut facility.

The majority of the capital expenditures in the fourth quarter and full year of 2012 were in Pembina's Conventional Pipelines, Gas Services and Midstream businesses. Conventional Pipelines' capital was incurred to progress the Northern NGL Expansion and on various new connections. Gas Services' capital was deployed to complete the Musreau deep cut facility and the expansion of the shallow cut facility at the Cutbank Complex, as well as to progress the Saturn and Resthaven enhanced NGL extraction facilities. Midstream's capital expenditures were primarily directed towards cavern development and related infrastructure as well as the 8,000 bpd expansion at the Redwater Facility.

Contractual Obligations at December 31, 2012

($ 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	293.0	25.4	55.5	58.8	153.6
Loans and borrowings[(1)]	2,446.7	80.6	368.9	637.2	1,360.0
Convertible debentures[(1)]	903.5	39.2	78.9	251.7	533.7
Construction commitments	362.8	324.2	38.6		
Provisions[(2)]	361.7	0.5	5.5	25.9	330.1
Total contractual obligations	4,367.7	469.9	546.8	973.6	2,377.4

(1) Excluding deferred financing costs.
(2) Includes discounted constructive and legal obligations included in the decommissioning provision.

Pembina is, subject to certain conditions, contractually committed to the construction and operation of the Saturn facility and the Resthaven facility. See "Forward-Looking Statements & Information."

The contractual obligations noted above have changed significantly since December 31, 2011, due primarily to the assumption of the contractual obligations of Provident as a result of the Acquisition.

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) Componentization

The componentization of the Company's assets are based on management's judgment of which components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization.

(iii) 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.

Estimates

(i) Inventory

Due to the inherent limitations in metering and the physical properties of storage caverns and pipelines, the determination of precise volumes of NGL held in inventory at such locations is subject to estimation. Actual inventories of NGL within storage caverns can only be determined by draining the caverns.

(ii) Financial derivative instruments

The Company's financial derivative instruments are recognized on the Statement of Financial Position at fair value based on management's estimate of commodity prices, share price and associated volatility, foreign exchange rates, interest rates and the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors.

(iii) 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 for allocation of the purchase price. 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, intangibles and goodwill in the purchase price analysis. Future net earnings can be affected as a result of changes in future depreciation and amortization, asset or goodwill impairment.

(iv) Defined benefit obligations

The calculation of the defined benefit obligation is sensitive to many estimates, but most significantly the discount rate applied.

(v) Provisions and contingencies

Provisions recognized are based on management's judgment about assessing contingent liabilities and timing, scope and amount of 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 biggest 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 the Company will utilize technology and materials that are currently available.

(vi) Share-based payments

Compensation costs pursuant to the share-based compensation plans are subject to estimated fair values, forfeiture rates and the future attainment of performance criteria.

(vii) 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 apply to income in the years in which temporary differences are expected to be realized or reversed.

(viii) Depreciation and amortization

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

Changes in Accounting Principles and Practices

Subsequent to the Acquisition, Pembina reviewed and compared legacy Provident's accounting policies with the Company's existing policies and determined there were no significant differences.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") for accounting periods beginning after January 1, 2013. The Company has reviewed these and determined that the following:

IFRS 7 *Financial Instruments: Disclosures* – in December 2011, the IASB issued amendments to IFRS 7 which outline disclosures that are required for any financial assets or liabilities that are offset in accordance with IAS 32. The amendments to this standard are required to be adopted for periods beginning January 1, 2013. The adoption of these amendments is not expected to have a material impact on the Company's Financial Statements.

IFRS 9 *Financial Instruments* – in November 2009 and revised in October 2010 the IASB issued IFRS 9. This standard replaces the current multiple classification and measurement model for financial assets and liabilities with a proposed single model for only two classification categories: amortized cost and fair value. The standard is currently required to be adopted for periods beginning January 1, 2015. The extent of the impact of adoption of this standard has not yet been determined.

IFRS 10 *Consolidated Financial Statements* – in May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an entity should be included within the consolidated financial statements of Pembina. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 11 *Joint Arrangements* – in May 2011, the IASB issued IFRS 11 which presents a new model for the financial reporting of joint arrangements. The new model determines whether an entity should account for joint arrangements using proportionate consolidation or the equity method with emphasis on the substance rather than legal form of a joint arrangement. The standard is required to be adopted for periods beginning January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 12 *Disclosure of Interests in Other Entities* – in June 2011, the IASB issued IFRS 12 which provides guidance on the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IFRS 13 *Fair Value Measurement* – in June 2011, the IASB issued IFRS 13 to provide specific guidance for all standards where IFRS requires or permits fair value measurement. The standard defines fair value and provides guidance on disclosures about fair value measurements. The standard is required to be adopted for periods beginning January 1, 2013. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

IAS 19 *Employee Future Benefits* – in June 2011, the IASB issued amendments to IAS 19 which limit the way actuarial gains and losses can be recorded and the way finance costs can be calculated, along with requirements for additional disclosures for defined benefit plans. The amendments to this standard are required to be adopted for periods beginning January 1, 2013. The adoption of these amendments is not expected to have a material impact on the Company's Financial Statements.

IAS 32 *Financial Instruments: Presentation* – in December 2011, the IAS issued amendments which clarify matters regarding offsetting financial assets and financial liabilities. The amendments to this standard are required to be adopted for periods beginning January 1, 2014. The Company is currently evaluating the impact that these amendments will have on its results of operations and financial position.

Controls and Procedures

As part of the requirements mandated by the Canadian securities regulatory authorities under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), Pembina's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the design and operation of Pembina's disclosure controls and procedures ("DC&P"), as such term is defined in NI 52-109, as at December 31, 2012. Based on that evaluation, the CEO and the CFO concluded that Pembina's DC&P was effective as at December 31, 2012.

The CEO and CFO are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as such term is defined in NI 52-109. These controls are designed to provide reasonable assurance regarding the reliability of Pembina's financial reporting and compliance with GAAP. Pembina's CEO and CFO have evaluated the design and operational effectiveness of such controls as at December 31, 2012. Based on the evaluation of the design and operating effectiveness of Pembina's ICFR, the CEO and the CFO concluded that Pembina's ICFR was effective as at December 31, 2012.

Changes in internal control over financial reporting

During 2012, there have been no changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as noted below.

In accordance with the provisions of NI 52-109, management, including the CEO and CFO, have limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies and procedures of Provident. Pembina acquired the assets of Provident and its subsidiaries on April 2, 2012. Provident's contribution to the Company's Consolidated Financial Statements for the quarter and year ended December 31, 2012 were approximately 36 percent and 32 percent of consolidated revenue, respectively, and approximately 11 percent and 24 percent of consolidated pre-tax earnings, respectively.

Additionally, as at December 31, 2012, Provident's current assets and current liabilities were approximately 59 percent and 44 percent of consolidated current assets and liabilities, respectively, and its non-current assets and non-current liabilities were approximately 57 percent and 34 percent of consolidated non-current assets and non-current liabilities, respectively.

The scope limitation is primarily based on the time required to assess Provident's DC&P and ICFR in a manner consistent with the Company's other operations.

Further details related to the Acquisition are disclosed in Note 5 in the Notes to the Company's Consolidated Financial Statements for the year ended December 31, 2012.

Trading Activity and Total Enterprise Value [1]

		As at and for the 12 months ended	
($ millions, except where noted)	February 26, 2013[2]	December 31, 2012	December 31, 2011
Trading volume and value			
Total volume *(shares)*	19,509,172	180,317,622	75,574,785
Average daily volume *(shares)*	500,235	718,397	325,753
Value traded	568.7	5,021.6	1,947.7
Shares outstanding *(shares)*	294,924,568	293,226,473	167,908,271
Closing share price *(dollars)*	28.89	28.46	29.66
Market value			
Shares	8,520.4	8,345.2	4,980.2
5.75% convertible debentures (PPL.DB.C)	334.0[3]	332.7[4]	326.8[5]
5.75% convertible debentures (PPL.DB.E)	205.3[6]	201.4[7]	
5.75% convertible debentures (PPL.DB.F)	193.5[8]	191.0[9]	
Market capitalization	9,253.2	9,070.3	5,306.9
Senior debt	1,932.0	1,942.0	1,338.1
Total enterprise value[10]	11,185.2	11,012.3	6,645.0

(1) Trading information in this table reflects the activity of Pembina securities on the TSX only.
(2) Based on 39 trading days from January 2, 2013 to February 26, 2013, inclusive.
(3) $299.7 million principal amount outstanding at a market price of $111.42 at February 26, 2013 and with a conversion price of $28.55.
(4) $299.7 million principal amount outstanding at a market price of $111.00 at December 31, 2012 and with a conversion price of $28.55.
(5) $300.0 million principal amount outstanding at a market price of $102.95 at December 31, 2011 and with a conversion price of $28.55.
(6) $172.1 million principal amount outstanding at a market price of $ 119.36 at February 26, 2013 and with a conversion price of $24.94.
(7) $172.1 million principal amount outstanding at a market price of $117.00 at December 31, 2012 and with a conversion price of $24.94.
(8) $172.4 million principal amount outstanding at a market price of $112.20 at February 26, 2013 and with a conversion price of $29.53.
(9) $172.4 million principal amount outstanding at a market price of $110.75 at December 31, 2012 and with a conversion price of $29.53.
(10) Refer to "Non-GAAP Measures."

As indicated in the previous table, Pembina's total enterprise value was $11 billion at December 31, 2012, and the Company's issued and outstanding shares rose to 293.2 million at the end of 2012 compared to 167.9 million at the end of 2011 primarily due to shares issued pursuant to the Acquisition.

Dividends

On April 12, 2012, following closing of the Acquisition, Pembina announced a 3.8 percent increase in its monthly dividend rate to $0.135 per share per month (or $1.62 annualized) from $0.13 per share per month previously (or $1.56 annualized). Pembina is committed to providing increased shareholder returns over time by providing stable dividends and, where appropriate, further increases in Pembina's dividend, subject to compliance with applicable laws and the approval of Pembina's Board of Directors. Pembina has a history of delivering dividend increases once supportable over the long-term by the underlying fundamentals of Pembina's businesses as a result of, among other things, accretive growth projects or acquisitions (see "Forward-Looking Statements & Information").

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 will consider earnings, capital requirements, the financial condition of Pembina and other relevant factors.

Eligible Canadian investors may benefit from an enhanced dividend tax credit afforded to the receipt of dividends, depending on individual circumstances. Dividends paid to eligible U.S. investors should qualify for the reduced rate of tax applicable to long-term capital gains but investors are encouraged to seek independent tax advice in this regard.

DRIP

Pembina reinstated its DRIP effective as of January 25, 2012. Eligible Pembina shareholders have the opportunity to receive, by reinvesting the cash dividends declared payable by Pembina on their 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 full year of 2012 was approximately 58 percent of common shares outstanding for proceeds of approximately $218.7 million.

Listing on the NYSE

On April 2, 2012, Pembina listed its common shares, including those issued under the Acquisition, on the NYSE under the symbol "PBA."

Risk Factors

Pembina's value proposition is based on maintaining a very low risk profile. In addition to contractually eliminating the majority of its business risk, Pembina has formal risk management policies, procedures and systems designed to mitigate any residual risks, such as market price risk, credit risk and operational risk. Certain of the risks associated with Pembina's business are discussed below. For a full discussion of these and other risk factors affecting the business and operation of Pembina and its operating subsidiaries, readers are referred to Pembina's Annual Information Form, an electronic copy of which is available at www.pembina.com or on Pembina's SEDAR profile at www.sedar.com. 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.

RISKS INHERENT IN PEMBINA'S BUSINESS

Operational Risks

Operational risks include: pipeline leaks, the breakdown or failure of equipment, information systems or processes; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); spills at truck terminals and hubs; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; operational disruptions or apportionment on third party systems or refineries which may prevent the full utilization of our pipelines; and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs; and, other similar events, many of which are beyond the control of Pembina. The occurrence or continuance of any of these events could increase the cost of operating Pembina's assets or reduce revenue, thereby impacting earnings.

Pembina is committed to preserving customer and shareholder value by proactively managing operational risk through safe and reliable operations. Senior managers are responsible for the daily supervision of operational risk by ensuring appropriate policies and procedures are in place within their business units and internal controls are operating efficiently. Pembina also has an extensive program to manage system integrity, which includes the development and use of in-line inspection tools and various other leak detection technologies. Maintenance, excavation and repair programs are directed to the areas of greatest benefit, and pipe is replaced or repaired as required. Pembina also maintains comprehensive insurance coverage for significant pipeline leaks and has a comprehensive security program designed to reduce security-related risks. While Pembina feels the level of insurance is adequate, it may not be sufficient to cover all potential losses.

Midstream Business

Pembina's Midstream business includes product storage terminalling and hub services. These activities expose Pembina to certain risks including that Pembina may experience volatility in revenue due to variations 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 fluctuations as a result of such factors as seasonal demand changes, 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 has varied significantly from period to period and this could have an adverse effect on the results of Pembina's commercial Midstream business and Pembina's overall results of operations. To assist in effectively smoothing that variability, Midstream is investing in assets that have a fee-based revenue component, and looking to expand this approach going forward.

The Midstream business is exposed to possible price declines between the time Pembina purchases NGL feedstock and sells NGL products, and to narrowing frac spreads. Frac spread is the difference between the selling prices for NGL products and the input cost of the natural gas required to produce the respective NGL products. The frac spread 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 prices received and 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 the frac spread. This exposure could result in material variability of cash flow generated by the NGL midstream business, which could negatively affect Pembina and the cash dividends of Pembina.

Reputation

Reputational risk is the potential for negative impacts that could result from the deterioration of Pembina's reputation with key stakeholders. The potential for harming Pembina's corporate reputation exists in every business decision, and all risks can have an impact on reputation, which in turn can negatively impact Pembina's business and its securities. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity, and regulatory and legal risks must all be managed effectively to safeguard Pembina's reputation. Negative impacts from a compromised reputation could include revenue loss, reduction in customer base, delays in regulatory approvals on growth projects, and decreased value of Pembina's securities.

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

Environmental Costs & Liabilities

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

While Pembina believes its current operations are in compliance with all applicable environmental and safety regulations, there can be no assurance that substantial costs or liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, claims for damages to persons or property resulting from Pembina's operations, and the discovery of pre-existing environmental liabilities in relation to any of Pembina'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 Pembina currently anticipates, and any such differences could be substantial. If Pembina were 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 its convertible debentures 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 in respect of certain occurrences unless they are discovered within fixed timed periods. These periods can range from 72 hours to 30 days. Although Pembina 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. However, Pembina believes it has adequate leak detection systems in place to detect and monitor a significant spill.

Pembina is committed to protecting the health and safety of employees, contractors and the general public, and to sound environmental stewardship. Pembina believes that prevention of incidents and injuries, and protection of the environment, benefits everyone and delivers increased value to shareholders, customers and employees.

Pembina has health, safety and environmental management systems and established policies, programs and practices for conducting safe and environmentally sound operations. Pembina conducts regular reviews and audits to assess compliance with legislation and company policy.

Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline and other assets at the end of their economic life, and these abandonment costs may be substantial. The proceeds of the disposition of certain assets associated with Pembina's pipeline systems, including, in respect of certain pipeline systems, linefill may be available to offset abandonment costs. However, it is not possible to definitively predict abandonment costs since they will be a function of regulatory requirements at the time, and the value of Pembina's assets, including linefill, may then be more or less than the abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for dividends to shareholders and to service obligations under Pembina's outstanding convertible debentures and other debt obligations.

On May 26, 2009 the NEB issued its Reasons for Decision RH-2-2008 with respect to the Land Matters Consultation Initiative – Stream 3 which dealt with financial issues of pipeline abandonment for pipelines under the NEB's jurisdiction. The NEB decided in principle to set an ultimate goal to have all companies under its jurisdiction begin setting aside funds for the abandonment of pipelines no later than 5 years from the date of the decision. The NEB recommended an action plan to achieve this ultimate goal that would require pipelines to submit to the NEB preliminary cost estimates and fund collection mechanisms for pipeline abandonment prior to the setting aside of funds. In November 2011, Pembina (and formally Provident) submitted preliminary cost estimates totalling $11,350,000 to the NEB for its affected approximately 275 km segments of pipeline. Pembina is working towards a pipeline abandonment fund collection plan and set aside mechanism to present to the NEB by May 31, 2013 prior to the setting aside of funds.

Reserve Replacement, Throughput and Product Demand

Pembina's Conventional Pipeline tariff revenue is based upon a variety of tolling arrangements, including "ship or pay" contracts, cost of service arrangements and market-based tolls. As a result, certain pipeline tariff revenue is heavily dependent upon throughput levels of crude oil, NGL and condensate. Future throughput on Pembina's crude oil and NGL pipelines and replacement of oil and gas reserves in the service areas will be dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Without reserve additions, or expansion of the service areas, throughput on such pipelines will decline over time as reserves are depleted. As oil and gas reserves are depleted, production costs may increase relative to the value of the remaining reserves in place, causing producers to shut-in production and seek lower cost alternatives for transportation. If the level of tariffs collected by Pembina decreases as a result, cash flow available for dividends to shareholders, to service obligations under the convertible debentures and the Company's 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 Pembina's crude oil and NGL pipelines and gas processing and gathering infrastructure in which Pembina has an interest. The global events of 2008 and 2009 had a substantial downward effect on the demand for and prices of such products. Although prices rebounded in 2010 and remained relatively strong through 2012, Pembina cannot predict the impact of future economic conditions on the energy and petrochemical industries or future demand for and prices of natural gas, crude oil, condensate and NGL. Future prices of these products are determined by supply and demand factors, including weather and general economic conditions as well as 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, 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. 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 trunkline systems. Operational disruptions or apportionment on those third-party systems may prevent the full utilization of the business.

Over the long-term, 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.

Operating and Capital Costs

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

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

Completion of the Resthaven Facility and Saturn Facility

The Resthaven facility and the Saturn facility are currently under development by Pembina and the successful completion of these facilities is dependent on numerous factors outside of Pembina's control. These factors include completion of the construction of the Resthaven facility and Saturn facility on schedule, as well as construction and labour costs that may change depending on supply, demand and/or inflation. Under the agreements governing the construction and operation of the Resthaven facility and the Saturn facility, Pembina is obligated to construct the facilities and Pembina bears the risk for its share of any cost overruns. While Pembina is not currently aware of any significant cost overruns at the date hereof, any such cost overruns in the future could reduce Pembina's expected return on the Resthaven facility and the Saturn facility and adversely affect Pembina's results of operations which, in turn, could reduce the level of cash available for dividends to shareholders.

Expansion of the Peace/Northern NGL System

The Company has announced plans to expand throughput capacity on the Peace/Northern NGL System (Phase I: 52,000, Phase 2: 55,000 bpd) and Peace Crude and Condensate System (Phase I: 40,000 bpd and Phase 2: 55,000). The successful completion of these expansions is dependent on numerous factors outside of the Company's control. These factors include receipt of regulatory approval and reaching long-term commercial arrangements with customers in respect of certain portions of the expansions, completion of the construction of the expansions on schedule, as well as construction costs that may change depending on supply, demand and/or inflation. Any agreements with customers entered into with respect to the expansions may require that the Company bears the risk for any cost overruns and any such cost overruns could reduce the Company's expected return on the expansions and adversely affect the Company's results of operations which, in turn, could reduce the level of cash available for dividends to shareholders. There is no certainty, nor can the Company provide any assurance, that regulatory approval will be received or that satisfactory commercial arrangements with customers will be reached where needed on a timely basis or at all.

Possible Failure to Realize Anticipated Benefits of Acquisitions

As part of its ongoing strategy, Pembina has completed acquisitions, such as the Provident Acquisition, and may complete additional 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.

Competition

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

Execution Risk

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

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

Shipper and Processing Contracts

Throughput on Pembina's pipelines is or will be governed by transportation contracts or tolling arrangements with various producers of petroleum products. In addition, Pembina is party to numerous contracts of varying durations in respect of its gas gathering, processing and fractionating facilities. Any default by counterparties under such contracts or any expirations of such contracts or tolling arrangements without renewal or replacement may have an adverse effect on Pembina's business. Furthermore, some of the contracts associated with its gas gathering, processing and fractionating facilities are comprised of a mixture of firm and interruptible service contracts and the revenue that Pembina earns on the contracts which are based on interruptible service is dependent on the volume of natural gas and NGL produced by producers in the relevant geographic areas and lower than historical production volumes in these areas (for reasons such as low commodity prices) may have an adverse effect on Pembina's revenue.

GENERAL RISK FACTORS

Risk Factors Relating to the Structure of Pembina and its Common Shares

Dilution of Shareholders

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

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

The following is a list of certain risk factors relating to the activities of Pembina and the ownership its common shares:

- the level of Pembina's indebtedness from time to time could impair Pembina's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise;
- the uncertainty of future dividend payments by Pembina and the level thereof as Pembina's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, operating cash flow generated by Pembina and its subsidiaries, financial requirements for Pembina's operations and the execution of its growth strategy and the satisfaction of solvency tests imposed by the Alberta Business Corporations Act for the declaration and payment of dividends;
- Pembina may make future acquisitions or may enter into financings or other transactions involving the issuance of securities of Pembina which may be dilutive; and
- the risk that the market value of the common shares may materially deteriorate if Pembina is unable to meet its cash dividend targets or make cash dividends in the future.

Market Value of Common Shares and Other Securities

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

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

Regulation

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

Additional Financing and Capital Resources

The timing and amount of Pembina's capital expenditures, and the ability of Pembina to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that Pembina pays to shareholders. Future acquisitions, expansions of Pembina's pipeline systems and midstream operations, other capital expenditures, including the capital expenditures that Pembina has committed to in respect of the Resthaven facility, the Saturn facility and the expansion of the Northern NGL System and the repayment or refinancing of existing debt as it becomes due will be financed from sources such as cash generated from operations, the issuance of additional 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. 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 to shareholders of Pembina may be reduced.

Counterparty credit risk

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

Debt Service

At the end of 2012, Pembina had exposure to floating interest rates on $525 million in debt. This debt exposure is managed by using derivative financial instruments. A one percent change in short-term interest rates would have an annualized impact of $1.4 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 to Pembina's shareholders. Certain covenants in the agreements with the lenders may also limit payments by Pembina's operating subsidiaries. Although Pembina believes that the existing credit facilities are sufficient, there can be no assurance that the amount will be adequate for Pembina's financial obligations or that additional funds can be obtained.

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 dividends to shareholders. Variations in interest rates and scheduled principal repayments for which Pembina may not be able refinance at favourable rates or at all, could result in significant changes in the amount required to be applied to service debt, which could have detrimental effects on the amount of cash available for dividends to shareholders. Certain covenants contained in the agreements with Pembina's lenders may also limit dividend payments. 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.

The lenders under Pembina's unsecured credit facilities and senior notes have also been provided with similar 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 to shareholders and payments to holders of convertible debentures.

Pembina, on a consolidated basis, is also required to meet certain financial covenants under the credit facilities and the senior notes and is subject to customary restrictions on its operations and activities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets.

Credit Ratings

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

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

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

Changes in Legislation

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

Reliance on Management

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

Potential Conflicts of Interest

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

Litigation

Pembina and its various subsidiaries and affiliates are, in the course of their business, subject to lawsuits and other claims. Defence and settlement costs associated with such lawsuits and claims can be substantial, even with respect to lawsuits and claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material adverse effect on the financial position or operating results of Pembina.

Variations in Interest Rates and Foreign Exchange Rates

Variations in interest rates could result in a significant change in the amount Pembina pays to service debt, potentially impacting dividends to shareholders. Variations in the exchange rate for the Canadian dollar versus the U.S. dollar could affect future dividends.

Selected Quarterly Operating Information

	2012				2011				2010
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Average volume *(mbpd unless stated otherwise)*									
Conventional Throughput	**480.2**	**443.9**	**433.9**	**466.9**	422.8	430.4	411.4	390.3	375.0
Oil Sands & Heavy Oil [1]	**870.0**	**870.0**	**870.0**	**870.0**	870.0	775.0	775.0	775.0	775.0
Gas Services Processing *(mboe/d)*[2]	**46.0**	**45.8**	**47.5**	**44.1**	45.3	43.6	40.9	39.4	42.1
NGL sales volume *(mboe/d)*	**115.8**	**86.7**	**90.4**						

(1) Oil Sands & Heavy Oil throughput refers to contracted capacity.
(2) Converted to mboe/d from MMcf/d at a 6:1 ratio.

Selected Quarterly Financial Information

	2012				2011				2010
($ millions, except where noted)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Revenue	**1,265.7**	**815.3**	**870.9**	**475.5**	468.1	300.6	512.4	394.9	290.7
Operations	**86.0**	**69.5**	**67.7**	**48.4**	55.1	54.4	37.6	44.8	41.9
Cost of goods sold including product purchases	**968.6**	**565.5**	**641.9**	**299.1**	308.0	145.8	364.3	254.2	161.8
Realized gain (loss) on commodity-related derivative financial instruments	**11.0**	**(2.8)**	**(12.4)**	**(0.3)**	0.9	3.2	(0.2)	1.4	(0.8)
Operating margin[(1)]	**222.1**	**177.5**	**148.9**	**127.7**	105.9	103.6	110.3	97.3	86.2
Depreciation and amortization included in operations	**47.8**	**51.6**	**52.5**	**21.7**	19.6	17.8	15.8	14.8	15.6
Unrealized gain (loss) on commodity-related derivative financial instruments	**(2.2)**	**(23.0)**	**64.8**	**(3.5)**	0.9	0.7	3.3	0.3	1.8
Gross profit	**172.1**	**102.9**	**161.2**	**102.5**	87.2	86.5	97.8	82.8	72.4
Adjusted EBITDA[(1)]	**199.0**	**153.8**	**125.9**	**111.4**	88.2	89.9	103.3	87.2	79.1
Cash flow from operating activities	**139.5**	**130.9**	**24.1**	**65.3**	73.8	87.7	49.5	74.5	54.6
Cash flow from operating activities per common share *($ per share)*	**0.48**	**0.45**	**0.08**	**0.39**	0.44	0.52	0.30	0.45	0.33
Adjusted cash flow from operating activities[(1)]	**172.3**	**133.2**	**89.5**	**98.8**	66.0	82.0	81.8	76.0	62.6
Adjusted cash flow from operating activities per common share[(1)] *($ per share)*	**0.59**	**0.46**	**0.31**	**0.59**	0.39	0.49	0.49	0.45	0.39
Earnings for the period	**81.3**	**30.7**	**80.4**	**32.6**	45.0	30.1	48.0	42.5	55.2
Earnings per common share *($ per share)*									
Basic	**0.28**	**0.11**	**0.28**	**0.19**	0.27	0.18	0.29	0.25	0.34
Diluted	**0.28**	**0.11**	**0.28**	**0.19**	0.27	0.18	0.29	0.25	0.33
Common shares outstanding *(millions)*:									
Weighted average (basic)	**291.9**	**289.2**	**285.3**	**168.3**	167.4	167.6	167.3	167.0	165.0
Weighted average (diluted)	**292.5**	**289.7**	**286.0**	**168.9**	168.2	168.2	168.0	167.6	171.7
End of period	**293.2**	**290.5**	**287.8**	**169.0**	167.9	167.7	167.5	167.1	166.9
Dividends declared	**118.4**	**117.3**	**116.2**	**65.7**	65.4	65.4	65.3	65.1	64.6
Dividends per common share *($ per share)*	**0.405**	**0.405**	**0.405**	**0.390**	0.390	0.390	0.390	0.390	0.390

(1) Refer to "Non-GAAP measures."

During the above periods, Pembina's results were influenced by the following factors and trends:

- Increased oil production from customers operating in the Cardium and Deep Basin Cretaceous formations of west central Alberta, which has resulted in increased service offerings in these areas, as well as new connections and capacity expansions;
- Increased liquids-rich natural gas production from producers in the WCBS (Deep Basin, Montney, Cardium and emerging Duvernay Shale plays), which has resulted in increased gas gathering and processing at the Company's gas services assets and additional associated NGL transported on its pipelines;
- Revenue contribution from the Nipisi and Mitsue Pipelines, which were completed in June and July of 2011; and
- The Acquisition of Provident, which closed on April 2, 2012 (for more details please see Note 5 of the Consolidated Financial Statements for the year ended December 31, 2012).

Selected Annual Financial Information

($ millions, except where noted)	**2012**	2011	2010
Revenue	**3,427.4**	1,676.0	1,231.8
Earnings	**225.0**	165.7	175.8
Per share – basic	**0.87**	0.99	1.08
Per share – diluted	**0.87**	0.99	1.07
Total assets	**8,276.5**	3,339.2	2,856.8
Long-term financial liabilities[(1)]	**3,004.7**	1,752.9	1,599.4
Declared dividends per share *($ per share)*	**1.61**	1.56	1.56

(1) Includes loans and borrowings, convertible debentures, long-term derivative financial instrument, provisions and other long-term liabilities.

Additional Information

Additional information about Pembina and legacy Provident filed with Canadian securities commissions and the United States Securities Commission ("SEC"), including quarterly and annual reports, Annual Information Forms (filed with the SEC under Form 40-F), Management Information Circulars and financial statements can be found online at www.sedar.com, www.sec.gov and Pembina's website at www.pembina.com.

Non-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 performance of Pembina and its business. Since certain Non-GAAP financial measures may not have a standardized meaning, securities regulations require that Non-GAAP financial measures are clearly defined, qualified and reconciled to their nearest GAAP measure. Concurrent with the Acquisition of Provident, certain Non-GAAP measures definitions have changed from those previously used to better reflect the changes in aspects of Pembina's business activities. Except as otherwise indicated, these Non-GAAP measures are calculated and disclosed on a consistent basis from period to period. Specific adjusting items may only be relevant in certain periods.

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

EBITDA is commonly used by Management, investors and creditors in the calculation of ratios for assessing leverage and financial performance and is calculated as results from operating activities plus share of profit from equity accounted investees (before tax) plus depreciation and amortization (included in operations and general and administrative expense) and unrealized gains or losses on commodity-related derivative financial instruments.

Adjusted EBITDA is EBITDA excluding acquisition-related expenses in connection with the Acquisition.

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except per share amounts)	**2012**	2011	**2012**	2011
Results from operating activities	**144.3**	65.5	**416.5**	290.7
Share of profit from equity accounted investees (before tax, depreciation and amortization)	**2.0**	3.2	**6.2**	12.9
Depreciation and amortization	**49.5**	20.4	**179.4**	70.2
Unrealized loss (gain) on commodity-related derivative financial instruments	**2.2**	(0.9)	**(36.1)**	(5.2)
EBITDA	**198.0**	88.2	**566.0**	368.6
Add:				
Acquisition-related expenses	**1.0**		**24.1**	
Adjusted EBITDA	**199.0**	88.2	**590.1**	368.6
EBITDA per common share – basic *(dollars)*	**0.68**	0.53	**2.19**	2.20
Adjusted EBITDA per common share – basic *(dollars)*	**0.68**	0.53	**2.28**	2.20

Adjusted earnings

Adjusted earnings is commonly used by Management for assessing and comparing financial performance each reporting period and is calculated as earnings before tax excluding unrealized gains or losses on derivative financial instruments and acquisition-related expenses in connection with the Acquisition plus share of profit from equity accounted investees (before tax).

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except per share amounts)	**2012**	2011	**2012**	2011
Earnings before income tax and equity accounted investees	**108.5**	43.3	**301.3**	198.8
Add (deduct):				
Unrealized (gains) losses on fair value of derivative financial instruments	**6.4**	(1.6)	**(40.2)**	2.4
Share of (loss) profit of investments in equity accounted investees (before tax)	**(0.1)**	2.0	**(1.5)**	7.7
Acquisition-related expenses	**1.0**		**24.1**	
Adjusted earnings	**115.8**	43.7	**283.7**	208.9
Adjusted earnings per common share – basic *(dollars)*	**0.40**	0.26	**1.10**	1.25

Adjusted cash flow from operating activities

Adjusted cash flow from operating activities is commonly used by Management for assessing financial performance each reporting period and is calculated as cash flow from operating activities plus the change in non-cash working capital and excluding acquisition-related expenses.

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions, except per share amounts)	**2012**	2011	**2012**	2011
Cash flow from operating activities	**139.5**	73.8	**359.8**	285.5
Add (deduct):				
Change in non-cash working capital	**31.8**	(7.8)	**109.9**	20.3
Acquisition-related expenses	**1.0**		**24.1**	
Adjusted cash flow from operating activities	**172.3**	66.0	**493.8**	305.8
Adjusted cash flow from operating activities per common share – basic *(dollars)*	**0.59**	0.39	**1.91**	1.83

Operating margin

Operating margin is commonly used by Management for assessing financial performance and is calculated as gross profit before depreciation and amortization included in operations and unrealized gain/loss on commodity-related derivative financial instruments.

Reconciliation of operating margin to gross profit:

	3 Months Ended December 31 (unaudited)		12 Months Ended December 31	
($ millions)	**2012**	2011	**2012**	2011
Revenue	**1,265.7**	468.1	**3,427.4**	1,676.0
Cost of sales:				
Operations	**86.0**	55.1	**271.6**	191.9
Cost of goods sold, including product purchases	**968.6**	308.0	**2,475.0**	1,072.3
Realized gain (loss) on commodity-related derivative financial instruments	**11.0**	0.9	**(4.6)**	5.3
Operating margin	**222.1**	105.9	**676.2**	417.1
Depreciation and amortization included in operations	**47.8**	19.6	**173.6**	68.0
Unrealized gain (loss) on commodity-related derivative financial instruments	**(2.2)**	0.9	**36.1**	5.2
Gross profit	**172.1**	87.2	**538.7**	354.3

Beginning in the second quarter of 2012, unrealized gain/loss on commodity-related derivative financial instruments has been reclassified from net finance costs to be included in gross profit.

Total enterprise value

Total enterprise value, in combination with other measures, is used by Management and the investment community to assess the overall market value of the business. Total enterprise value is calculated based on the market value of common shares and convertible debentures at a specific date plus senior debt.

Management believes these supplemental Non-GAAP measures facilitate the understanding of Pembina's results from operations, leverage, liquidity and financial positions. Investors should be cautioned that EBITDA, adjusted EBITDA, adjusted earnings, adjusted cash flow from operating activities, operating margin and total enterprise value should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of Pembina's performance. Furthermore, these Non-GAAP measures may not be comparable to similar measures presented by other issuers.

Forward-Looking Statements & Information

In the interest of providing our securityholders and potential investors with information regarding Pembina, including Management's assessment of our 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", "design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential", "envision", "aim", "outlook", "propose", "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;
- capital expenditure-estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, gas service facilities, terminalling, storage and hub facilities and other facilities or energy infrastructure, including, but not limited to, the Northern NGL System, the Peace HVP expansion between Fox Creed and Fort Saskatchewan, the LVP expansion between Fox Creek and Edmonton, Alberta, the Phase 2 LVP Expansion, the Phase 2 NGL Expansion, the joint venture full-service terminal in the Judy Creek area of Alberta area, the development program in the Cynthia area west of Drayton Valley, offshore export opportunities for propane, the Nipisi and Mitsue pipelines expansions, the Saturn facility and associated pipelines, the Resthaven facility and associated pipelines, the Nexus expansion, the Redwater expansion;
- future expansion of Pembina's pipelines and other infrastructure;
- pipeline, processing and storage facility and system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- Pembina's strategy and the development of new business initiatives;
- growth opportunities;
- expectations regarding Pembina's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under government regulatory regimes including environmental regulations and related abandonment and reclamation obligations;
- future G&A expenses at Pembina
- increased throughput potential due to increased activity and new connections and other initiatives on Pembina's pipelines;
- future cash flows, potential revenue and cash flow enhancements across Pembina's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash dividends and the tax treatment thereof;
- operating risks (including the amount of future liabilities related to pipeline spills and other environmental incidents) and related insurance coverage and inspection and integrity programs;
- the expected capacity, incremental volumes and in-services dates of proposed expansions and new developments, including the Northern NGL System, the Peace HVP expansion between Fox Creek and Fort Saskatchewan, the LVP expansion between Fox Creek and Edmonton, Alberta, the Phase 2 LVP Expansion, the Phase 2 NGL Expansion, the Nipisi and Mitsue pipelines, the Saturn facility, the Resthaven facility and Nexus;
- the possibility of offshore export opportunities for propane;
- the possibility of renegotiating debt terms, repayment of existing debt, seeking new borrowing and/or issuing equity;
- expectations regarding participation in Pembina's DRIP;
- the expected impact of changes in share price on annual share-based incentive expense;
- inventory and pricing levels in the North American liquids market;
- Pembina's discretion to hedge natural gas and NGL volumes; and

- competitive conditions.

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:

- the success of Pembina's operations;
- prevailing commodity prices 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, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs;
- geotechnical and integrity costs associated with the Western System;
- in respect of the proposed Saturn facility and the Resthaven facility and their estimated in-service dates; that all required regulatory and environmental approvals can be obtained on the necessary terms in a timely manner, that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts or the completion of such facilities; that such facilities will be fully supported by long-term firm service agreements accounting for the entire designed throughput at such facilities at the time of such facilities' completion; that there are no unforeseen construction costs related to the facilities; and that there are no unforeseen material costs relating to the facilities which are not recoverable from customers;
- in respect of the expansion of NGL throughput capacity on the Northern NGL System and the crude throughput capacity on the Peace crude system and the estimated in-service dates with respect to the same; that Pembina will receive regulatory approval; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs related to the expansion; and that there are no unforeseen material costs relating to the pipelines that are not recoverable from customers;

- in respect of the proposed expansion of Redwater; that Pembina will receive regulatory approval; that Pembina will reach satisfactory long-term arrangements with customers; that counterparties will comply with such contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs; and that there are no unforeseen material costs relating to the proposed fractionators that are not recoverable from customers;

- in respect of other developments, expansions and capital expenditures planned, including the proposed expansion of a number of existing truck terminals and construction of new full-service terminals, the expectation of additional NGL and crude volumes being transported on the conventional pipelines, the proposed expansion plans to strengthen Pembina's transportation service options that it provides to producers developing the Cardium oil formation located in central Alberta, the installation of two remaining pump stations on the Nipisi and Mitsue pipelines, the development of seven-fee-for-service storage facilities at Redwater and the Redwater fractionator expansion that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs; and that there are no unforeseen material costs relating to the developments, expansions and capital expenditures which are not recoverable from customers;

- the future exploration for and production of oil, NGL and natural gas in the capture area around Pembina's conventional and midstream assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;

- in respect of the stability of Pembina's dividend; 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; and

- prevailing regulatory, tax and environmental laws and regulations.

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 alliances and agreements;

- the strength and operations of the oil and natural gas production industry and related commodity prices;

- non-performance or default by counterparties to agreements which 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;

- the failure to realize the anticipated benefits of the Acquisition;

- the failure to complete remaining integration of the businesses of Pembina and Provident; and

- the other factors discussed under "Risk Factors" in Pembina's Annual Information Form ("AIF") for the year ended December 31, 2012. 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 RESPONSIBILITY

The Consolidated Financial Statements of Pembina Pipeline Corporation (the "Company") 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 maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

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 their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.



Robert B. Michaleski
Chief Executive Officer
Pembina Pipeline Corporation



Peter D. Robertson
Vice President, Finance & Chief Financial Officer
Pembina Pipeline Corporation

March 1, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pembina Pipeline Corporation

We have audited the accompanying consolidated financial statements of Pembina Pipeline Corporation, which comprise the consolidated statement of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of 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. 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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, 2012 and December 31, 2011, 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.

/s/ KPMG LLP
Calgary, Alberta

March 1, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 *($ thousands)*	Note	**2012**	2011
Assets			
Current assets			
Cash and cash equivalents		**27,336**	
Trade receivables and other	6	**331,692**	148,267
Derivative financial instruments	27	**7,528**	4,643
Inventory		**108,096**	21,235
		474,652	174,145
Non-current assets			
Property, plant and equipment	7	**5,014,542**	2,747,530
Intangible assets and goodwill	8	**2,622,677**	243,904
Investments in equity accounted investees	9	**161,205**	161,002
Derivative financial instruments	27	**343**	1,807
Other receivables	6	**3,080**	10,814
		7,801,847	3,165,057
Total Assets		**8,276,499**	3,339,202
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness			676
Trade payables and accrued liabilities	11	**344,740**	166,646
Dividends payable		**39,586**	21,828
Loans and borrowings	12	**11,652**	323,927
Derivative financial instruments	27	**15,932**	4,725
		411,910	517,802
Non-current liabilities			
Loans and borrowings	12	**1,932,774**	1,012,061
Convertible debentures	13	**609,968**	289,365
Derivative financial instruments	27	**51,759**	12,813
Employee benefits	25	**28,623**	16,951
Share-based payments		**17,239**	14,060
Deferred revenue		**3,099**	2,185
Provisions	14	**361,206**	405,433
Deferred tax liabilities	10	**584,489**	106,915
		3,589,157	1,859,783
Total Liabilities		**4,001,067**	2,377,585
Shareholders' Equity			
Equity attributable to shareholders of the Company:			
Share capital	15	**5,324,058**	1,811,734
Deficit		**(1,027,678)**	(834,921)
Accumulated other comprehensive income		**(26,123)**	(15,196)
		4,270,257	961,617
Non-controlling interest		**5,175**	
Total Equity		**4,275,432**	961,617
Total Liabilities and Shareholders' Equity		**8,276,499**	3,339,202

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31 *($ thousands, except per share amounts)*	Note	**2012**	2011
Revenue	16	**3,427,402**	1,676,050
Cost of sales	17	**2,920,208**	1,332,205
Gain on commodity-related derivative financial instruments	27	**31,529**	10,471
Gross profit		**538,723**	354,316
General and administrative	18	**97,488**	62,191
Acquisition-related and other expense		**24,748**	1,429
		122,236	63,620
Results from operating activities		**416,487**	290,696
Finance income		**(6,611)**	(1,374)
Finance costs		**121,751**	93,301
Net finance costs	21	**115,140**	91,927
Earnings before income tax and equity accounted investees		**301,347**	198,769
Share of loss (profit) of investments in equity accounted investees, net of tax		**1,056**	(5,766)
Income tax expense	10	**75,339**	38,869
Earnings for the year		**224,952**	165,666
Other comprehensive income (loss)			
Defined benefit plan actuarial losses		**(14,568)**	(14,159)
Income tax benefit	10	**3,641**	3,540
Other comprehensive loss for the year	25	**(10,927)**	(10,619)
Total comprehensive income for the year		**214,025**	155,047
Earnings attributable to:			
Shareholders of the Company		**224,844**	165,666
Non-controlling interest		**108**	
		224,952	165,666
Total comprehensive income attributable to:			
Shareholders of the Company		**213,917**	155,047
Non-controlling interest		**108**	
		214,025	155,047
Earnings per share attributable to shareholders of the Company:			
Basic and diluted earnings per share *(dollars)*	23	**0.87**	0.99

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to Shareholders of the Company					
($ thousands)	Note	Share Capital	Deficit	Accumulated Other Comprehensive Income	Total	Non-controlling Interest	Total Equity
December 31, 2010		1,794,536	(739,351)	(4,577)	1,050,608		1,050,608
Total comprehensive income for period							
Earnings			165,666		165,666		165,666
Other comprehensive income							
Defined benefit plan actuarial losses, net of tax	25			(10,619)	(10,619)		(10,619)
Total comprehensive income for the year			165,666	(10,619)	155,047		155,047
Transactions with shareholders of the Company							
Share-based payment transactions	15	16,978			16,978		16,978
Debenture conversions and other	15	220			220		220
Dividends declared	15		(261,236)		(261,236)		(261,236)
Total transactions with shareholders of the Company		17,198	(261,236)		(244,038)		(244,038)
December 31, 2011		1,811,734	(834,921)	(15,196)	961,617		961,617
Total comprehensive income for period							
Earnings			224,844		224,844	108	224,952
Other comprehensive income							
Defined benefit plan actuarial losses, net of tax	25			(10,927)	(10,927)		(10,927)
Total comprehensive income (loss) for the year			224,844	(10,927)	213,917	108	214,025
Transactions with shareholders of the Company							
Share-based payment transactions	15	9,221			9,221		9,221
Debenture conversions and other	15	432			432		432
Dividends declared	15		(417,601)		(417,601)		(417,601)
Common shares issued on acquisition	5	3,283,976			3,283,976		3,283,976
Dividend reinvestment plan	15	218,695			218,695		218,695
Total transactions with shareholders of the Company		3,512,324	(417,601)		3,094,723		3,094,723
Non-controlling interest assumed on acquisition	5					5,067	5,067
December 31, 2012		5,324,058	(1,027,678)	(26,123)	4,270,257	5,175	4,275,432

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *($ thousands)*	Note	**2012**	2011
Cash provided by (used in):			
Operating activities:			
Earnings for the year		**224,952**	165,666
Adjustments for:			
Depreciation and amortization	19	**179,386**	70,219
Unrealized gain on commodity-related derivative financial instruments		**(36,100)**	(5,176)
Net finance costs	21	**115,140**	91,927
Share of loss (profit) of investments in equity accounted investees, net of tax		**1,056**	(5,766)
Deferred income tax expense	10	**75,802**	38,869
Share-based payments expense	26	**17,028**	18,651
Employee future benefits expense	25	**7,225**	4,825
Other		**1,006**	989
Changes in non-cash working capital	24	**(109,881)**	(20,297)
Payments from equity accounted investees	9	**17,428**	16,869
Decommissioning liability expenditures	14	**(4,944)**	(3,123)
Employer future benefit contributions	25	**(10,000)**	(8,000)
Net interest paid		**(118,291)**	(80,115)
Cash flow from operating activities		**359,807**	285,538
Financing activities:			
Bank borrowings		**6,861**	153,137
Repayment of loans and borrowings		**(61,332)**	(90,596)
Issuance of debt		**450,000**	250,000
Financing fees		**(7,343)**	(1,774)
Exercise of stock options		**7,295**	16,059
Dividends paid (net of shares issued under the Dividend Reinvestment Plan)	15	**(181,148)**	(261,102)
Cash flow from financing activities		**214,333**	65,724
Investing activities:			
Net capital expenditures		**(546,820)**	(477,335)
Contributions to equity accounted investees		**(8,182)**	
Cash acquired on acquisition		**8,874**	
Cash flow used in investing activities		**(546,128)**	(477,335)
Change in cash		**28,012**	(126,073)
Cash (bank indebtedness), beginning of year		**(676)**	125,397
Cash and cash equivalents (bank indebtedness), end of year		**27,336**	(676)

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 jointly controlled entities as at and for the year ended December 31, 2012. These Financial Statements present fairly the financial position, financial performance and cash flows of the Company.

Pembina owns or has interests in pipelines that transport conventional crude oil and natural gas liquids ("NGL"), oil sands and heavy oil pipelines, gas gathering and processing facilities, and an NGL infrastructure and logistics business. Facilities are located in Canada and in the U.S. Pembina also offers midstream services that span across its operations.

2. BASIS OF PREPARATION

a. Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Financial Statements were authorized for issue by the Board of Directors on March 1, 2013.

b. Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at estimated fair value; and
- liabilities for cash-settled share-based payment arrangements are measured at estimated fair value.

c. Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been disclosed in thousands except where noted.

d. 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) Componentization

The componentization of the Company's assets are based on management's judgment of what components constitute a significant cost in relation to the total cost of an asset and whether these components have similar or dissimilar patterns of consumption and useful lives for purposes of calculating depreciation and amortization.

(iii) 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.

Estimates

(i) Inventory

Due to the inherent limitations in metering and the physical properties of storage caverns and pipelines, the determination of precise volumes of NGL held in inventory at such locations is subject to estimation. Actual inventories of NGL within storage caverns can only be determined by draining of the caverns.

(ii) Financial derivative instruments

The Company's financial derivative instruments are recognized on the statement of financial position at fair value based on management's estimate of commodity prices, share price and associated volatility, foreign exchange rates, interest rates and the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors.

(iii) 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 for allocation of the purchase price. 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 analysis. Future net earnings can be affected as a result of changes in future depreciation and amortization, asset or goodwill impairment.

(iv) Defined benefit obligations

The calculation of the defined benefit obligation is sensitive to many estimates, but most significantly of which include the discount rate and long-term rate of return on assets applied.

(v) Provisions and contingencies

Provisions recognized are based on management's judgment about assessing contingent liabilities and timing, scope and amount of 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 biggest 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.

(vi) Share-based payments

Compensation costs pursuant to the share-based compensation plans are subject to estimated fair values, forfeiture rates and the future attainment of performance criteria.

(vii) 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 rated anticipated to apply to income in the years in which temporary differences are expected to be realized or reversed.

(viii) Depreciation and amortization

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are 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 profit or loss.

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 profit or loss.

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 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 and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The Financial Statements include the Company's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. The Company's investments in its associates and joint ventures 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) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venture using its own assets in pursuit of the joint operations. The Financial Statements include the assets that the Company controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Company incurs and its share of the income that it earns from the joint operation.

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, Canadian dollars, 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 profit or loss.

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 profit or loss) 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 profit or loss) 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 indebtedness, trade payables and accrued liabilities, 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) Share capital

Common shares

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) 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 profit or loss in the statement of 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.

v) 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 profit or loss. Derivatives are recognized initially at fair value with attributable transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in non-commodity-related derivatives are recognized immediately in profit or loss in net finance costs and changes in commodity-related derivatives are recognized immediately in profit or loss 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 profit or loss.

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 profit or loss 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 profit or loss 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 3 to 75 years (an average of 47 years) or declining balance method at rates ranging from 3 percent to 37 percent per annum (an average rate of 15 percent per annum). Facilities and equipment are depreciated using straight line method over 3 to 75 years (at an average rate of 35 years) or declining balance method at rates ranging from 3 to 37 percent (at an average rate of 12 percent per annum). Other assets are depreciated using the straight line method over 2 to 45 years (an average of 17 years) or declining balance method at rates ranging from 3 percent to 37 percent (at an average rate of 2 percent per annum). These rates are established to depreciate remaining net book value over the 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 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 3(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 profit or loss as incurred.

iv) Amortization

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

Amortization is recognized in profit or loss 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 3 to 25 years (at an average of 17 years).

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 profit or loss 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 profit or loss is assessed at each reporting date to determine whether there is objective evidence that 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 a loss event had a negative effect on the estimated future cash flows of that asset and the impact 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 and other 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 profit or loss 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 profit or loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than line fill and 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, then 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 each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related Cash Generating Unit ("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. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated 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 profit or loss. 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 investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate 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 profit or loss 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 that are 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 ("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. Unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used to determine the present value is comprised of the following: estimated returns for each major asset class consistent with market conditions on the valuation date and the target asset mix specified in the Plans investment policy, additional net returns assumed to be achievable due to active equity management, implicit provision for expenses determined as the average rate of investment and administrative expenses paid by the Plans over the last five years, and a margin for adverse deviations, based on the proportion of the Plans' assets invested in equities in excess of the return expected on equities, over government bond yields.

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 total of any unrecognized past service costs and the present value of economic benefits available in the form of 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 profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

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 profit or loss.

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) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is comprised of the following: estimated returns for each major asset class consistent with market conditions on the valuation date and the target asset mix specified in the Plans investment policy, additional net returns assumed to be achievable due to active equity management, implicit provision for expenses determined as the average rate of investment and administrative expenses paid from the Plans over the last five years, and a margin for adverse deviations, based on the proportion of the Plans assets invested in equities in excess return expected on equities, over government yield bonds.

The calculation is performed using an actuary.

iv) 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.

v) 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 profit or loss.

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 (accretion) 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/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 profit or loss.

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 profit or loss and foreign exchange gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on loans and borrowings, 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 profit or loss using the effective interest method.

m. Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in profit or loss 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 profit or loss;
- temporary differences relating to investments in subsidiaries and jointly controlled entities 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 the impact of uncertain tax positions 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 share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss 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 income or loss relating to the outstanding Convertible Instruments are added back to net income 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 Chief Operating Officer ("COO") 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 COO 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, head office 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. Changes in balance sheet items that have not resulted in cash flows such as share-based payment expense, 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.

q. New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") for accounting periods beginning after January 1, 2013. The Company has reviewed these and determined the following:

Amendments to IFRS 7 *Financial Instruments*: Disclosures are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments is not expected to have a material impact on the Company’s Financial Statements.

IFRS 9 (2010) *Financial Instruments* is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities* and IFRS 13 *Fair Value Measurement* are effective for annual periods beginning on or after January 1, 2013. The adoption of these standards is not expected to have a material impact on the Company's financial statements.

Amendments to IAS 19 Employee Future Benefits are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments is not expected to have a material impact on the Company's Financial Statements.

IAS 32 *Financial Instruments*: Presentation is effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

4. 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, with the exception of the redemption liability which is related to the acquisition of the Company's subsidiary, are estimated by reference to independent monthly forward settlement prices, interest rate yield curves, currency rates, quoted market prices per share and volatility rates at the period ends.

The redemption liability related to one of the Company's subsidiaries represents a put option, held by the non-controlling interest, to sell the remaining one-third of the business to the Company after the third anniversary of the acquisition date (October 3, 2014). The put price to be paid by the Company for the residual interest upon exercise is based on a multiple of the subsidiary's earnings during the three year period prior to exercise, adjusted for associated capital expenditures and debt based on management estimates (see Note 27 "Financial Instruments and Financial Risk Management").

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.

5. ACQUISITION

On April 2, 2012, Pembina acquired all of the outstanding Provident Energy Ltd. ("Provident") common shares (the "Provident Shares") in exchange for Pembina common shares valued at approximately $3.3 billion (the "Acquisition"). Provident shareholders received 0.425 of a Pembina common share for each Provident Share held for a total of 116,535,750 Pembina common shares. On closing, Pembina assumed all of the rights and obligations of Provident relating to the 5.75 percent convertible unsecured subordinated debentures of Provident maturing December 31, 2017, and the 5.75 percent convertible unsecured subordinated debentures of Provident maturing December 31, 2018 (collectively, the "Provident Debentures"). The face value of the outstanding Provident Debentures at April 2, 2012 was $345 million. The debentures remain outstanding and continue with terms and maturity as originally set out in their respective indentures. Pursuant to the Acquisition, Provident amalgamated with a wholly-owned subsidiary of Pembina and has continued under the name "Pembina NGL Corporation". The results of the acquired business are included as part of the Midstream business.

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

($ millions)	
Cash	9
Trade receivables and other	195
Inventory	87
Property, plant and equipment	1,988
Intangible assets and goodwill (including $1,753 goodwill)	2,414
Trade payables and accrued liabilities	(249)
Derivative financial instruments – current	(53)
Derivative financial instruments – non-current	(36)
Loans and borrowings	(215)
Convertible debentures	(317)
Provisions and other	(128)
Deferred tax liabilities	(406)
Non-controlling interest	(5)
	3,284

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 Provident and the acquisition of a talented workforce. The recognized goodwill is generally not expected to be deductible for tax purposes.

Upon closing of the Acquisition, Pembina repaid Provident's revolving term credit facility of $205 million.

The Company has recognized $24.1 million in acquisition-related expenses. These expenses are included in acquisition-related and other expenses in the Financial Statements.

The Pembina Shares were listed and began trading on the NYSE under the symbol "PBA" on April 2, 2012.

Revenue generated by the Provident business for the period from the Acquisition date of April 2, 2012 to December 31, 2012, before intersegment eliminations, was $1,151.4 million. Net earnings, before intersegment eliminations, for the same period were $54.2 million.

Unaudited proforma consolidated revenue (prepared as if the Provident Acquisition had occurred on January 1, 2012) for the year ended December 31, 2012 are $3,967.5 million and net earnings for the same period are $277 million.

6. TRADE AND OTHER RECEIVABLES

December 31 *($ thousands)*	**2012**	2011
Trade accounts receivable from customers	**310,364**	116,809
Trade accounts receivable and other receivables from related parties	**10,814**	28,864
Prepayments	**10,514**	2,594
Total current trade and other receivables	**331,692**	148,267
Non-current holdbacks receivable	**3,080**	
Receivable due from related parties		10,814
	334,772	159,081

On March 29, 2012 the Musreau Deep Cut experienced a gear box failure, resulting in an interruption to business until Pembina brought the Deep Cut compressor back into service on September 2, 2012. Business interruption and capital insurance claims are currently being pursued. Pembina has recognized a receivable based on information on the claim status as of the reporting date.

7. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	Land and Land Rights	Pipelines	Facilities and Equipment	Linefill and Other	Assets Under Construction	Total
Cost						
Balance at December 31, 2010	57,248	1,997,267	483,765	149,117	260,819	2,948,216
Additions	10,006	216,293	30,208	48,891	222,196	527,594
Change in decommissioning provision		117,491				117,491
Capitalized interest		207			10,015	10,222
Transfers	104	169,354	15,075	1,139	(185,672)	
Disposals and other	(139)	(585)	(428)	1,579		427
Balance at December 31, 2011	67,219	2,500,027	528,620	200,726(1)	307,358	3,603,950(1)
Acquisition (Note 5)	18,093	276,225	1,319,286	287,319	87,273	1,988,196
Additions	5,900	20,315	38,533	31,021	488,545	584,314
Change in decommissioning provision		(139,468)	(31,441)			(170,909)
Capitalized interest		570	98		13,821	14,489
Transfers	1,793	(61,401)	217,928	(13,149)	(145,171)	
Disposals and other	(5,001)	(2,534)	(828)	626		(7,737)
Balance at December 31, 2012	88,004	2,593,734	2,072,196	506,543	751,826	6,012,303
Depreciation						
Balance at December 31, 2010	4,043	659,277	76,498	49,301		789,119
Depreciation	45	48,334	16,768	4,374		69,521
Disposals		(516)	(268)	(1,436)		(2,220)
Balance at December 31, 2011	4,088	707,095	92,998	52,239		856,420
Depreciation	279	70,795	54,476	19,629		145,179
Transfers		917	24,628	(25,545)		
Disposals and other		(2,099)	(225)	(1,514)		(3,838)
Balance at December 31, 2012	4,367	776,708	171,877	44,809		997,761
Carrying amounts						
December 31, 2011	63,131	1,792,932	435,622	148,487	307,358	2,747,530
December 31, 2012	83,637	1,817,026	1,900,319	461,734	751,826	5,014,542

(1) $1.5 million was reclassified from inventory to Linefill and Other at December 31, 2011.

Property, plant and equipment under construction

Costs of assets under construction at December 31, 2012 totalled $751.8 million ($2011: $307.4 million). Such amounts include capitalized borrowing costs.

For the year ended December 31, 2012, capitalized borrowing costs related to the construction of the new pipelines or facilities amounted to $14.5 million (2011: $10.2 million), with capitalization rates ranging from 4.29 percent to 4.77 percent (2011: 4.91 percent to 5.36 percent).

Commitments

At December 31, 2012, the Company has contractual commitments for the acquisition and or construction of property, plant and equipment of $362.8 million (December 31, 2011: $364.3 million).

8. INTANGIBLE ASSETS AND GOODWILL

		Other Intangible Assets				
	Goodwill	Purchase and Sale Contracts	Customer Relationships	Purchase Options	Total Other Intangible Assets	Total Goodwill & Intangible Assets
Cost						
Balance at December 31, 2010 and 2011	222,670	23,038			23,038	245,708
Acquisition (Note 5)	1,752,942	157,051	226,497	277,350	660,898	2,413,840
Additions and other		5,000			5,000	5,000
Balance at December 31, 2012	1,975,612	185,089	226,497	277,350	688,936	2,664,548
Amortization						
Accumulated amortization at December 31, 2010		1,106			1,106	1,106
Amortization		698			698	698
Accumulated amortization at December 31, 2011		1,804			1,804	1,804
Amortization		24,778	15,289		40,067	40,067
Accumulated amortization at December 31, 2012		26,582	15,289		41,871	41,871
Carrying amounts						
December 31, 2011	222,670	21,234			21,234	243,904
December 31, 2012	1,975,612	158,507	211,208	277,350	647,065	2,622,677

Other intangible assets consist of customer purchase and sale contracts with several producers acquired through business combinations. In addition, Pembina has a purchase option of $277.3 million to acquire property, plant and equipment. The purchase option 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:

($ thousands)	**2012**	2011
Conventional Pipelines	**315,470**	194,370
Oil Sands and Heavy Oil	**33,300**	28,300
Gas Services	**196,136**	21,234
Midstream	**2,077,771**	
	2,622,677	243,904

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the Company's operating divisions which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments. Impairment testing for goodwill was performed on December 31, 2012. 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 cash generating unit. 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 5 years of the business plan approved by management. Cash flows for periods up to 68 years (2011: 75 years) were extrapolated using a constant growth rate of 2 percent (2011: 1.9 percent), which does not exceed the long-term average growth rate for the industry. Pre-tax discount rates between 7.49 percent and 8.63 percent (2011: 7.51 percent and 8.84 percent) were applied in determining the recoverable amount of the cash generating units. The discount rates were estimated based on past experience, the Company's risk free rate and average cost of debt in addition to estimates of the specific cash generating unit's equity risk premium, size premium, small capitalization premium, projection risk, betas, tax rate and industry targeted debt to equity ratios.

9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

The Company has a 50 percent interest in two jointly controlled, equity accounted investees that are reported using the equity method of accounting. The carrying value of the investment at December 31, 2012 is $161.2 million (2011: $161 million).

	Pembina's Proportionate Share of Balance As At				Pembina's Proportionate Share of Transaction Value For The Year Ended			Payments from Equity Accounted Investees
	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Revenues	Expenses	Profit and Loss	
($ thousands)								
Fort Saskatchewan Ethylene Storage Corporation (FSESC)	316	11	1		78	2	76	
Fort Saskatchewan Ethylene Storage Limited Partnership (FSESLP)	3,271	26,216	20,125	12,087	45,925	7,082	38,843	16,869
December 31, 2011	3,587	26,227	20,126	12,087	46,003	7,084	38,919	16,869
FSESC	331	4	2		12	4	8	
FSESLP	2,917	41,343	16,950	21,457	14,646	8,788	5,858	17,428
December 31, 2012	3,248	41,347	16,952	21,457	14,658	8,792	5,866	17,428

On acquisition, Pembina recognized a fair value adjustment which is amortized over the useful life of the assets. Pembina's share of profit of investments in equity accounted investees includes amortization of the fair value adjustment of $7.7 million (2011: $5.2 million), derecognition of fair value adjustment of $nil (2011: $25.2 million), income tax benefit (expense) of $0.5 million (2011: $(1.9) million) and other $0.3 million (2011: $(0.7) million) In 2012, Pembina made contributions for the construction of caverns of $8.2 million (2011: $nil).

Commitments

At December 31, 2012, the Company's share of investment in equity accounted investees contractual commitments for the construction of property, plant and equipment is $31.6 million (December 31, 2011: $42.7 million).

10. INCOME TAXES

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

($ thousands)	**2012**	2011
Asset:		
Intangible assets		2,512
Derivative financial instruments	**22,787**	2,772
Employee benefits	**7,156**	4,238
Share-based payments	**7,971**	3,515
Provisions	**114,617**	101,358
Benefit of loss carryforwards	**76,702**	62,426
Other deductible temporary differences	**2,783**	4,240
Total deferred tax asset	**232,016**	181,061
Liability:		
Property, plant and equipment	**589,909**	203,178
Intangible assets	**127,467**	
Investments in equity accounted investees	**21,841**	25,802
Taxable limited partnership income deferral	**75,295**	50,175
Other taxable temporary differences	**1,993**	8,821
Total deferred tax liability	**816,505**	287,976
Total deferred tax liability	**584,489**	106,915

The Company's consolidated effective tax rate for the year ended December 31, 2012 was 25 percent (2011: 19.6 percent).

Reconciliation of effective tax rate

Year Ended December 31 *($ thousands)*	**2012**	2011
Earnings before income tax	**301,347**	198,769
Statutory tax rate	**25.0%**	26.5%
Income tax at statutory rate	**75,337**	52,674
Tax rate changes on deferred income tax balances	**1,948**	(5,051)
Changes in estimate from prior year	**(2,160)**	(8,880)
Other	**214**	126
Income tax expense	**75,339**	38,869

In 2007, the Canadian federal government enacted a change in the federal income tax rate from 16.5 percent in 2011 to 15 percent in 2012.

Income tax expense

Year Ended December 31 *($ thousands)*	**2012**	2011
Current tax benefit		
Adjustment for prior period	**(463)**	
Total current tax benefit	**(463)**	
Deferred tax expense		
Origination and reversal of temporary differences	**58,005**	23,826
Tax rate changes on deferred tax balances	**1,948**	(5,075)
Decrease in tax loss carry forward	**15,849**	20,118
Total deferred tax expense	**75,802**	38,869
Total income tax expense	**75,339**	38,869

The movement of the deferred tax liability is as follows:

($ thousands)	**2012**	2011
Opening balance, January 1	**106,915**	69,686
Deferred income tax expense	**75,802**	38,869
Tax benefit on share of (loss) profit of equity accounted investees	**(458)**	1,900
Income tax benefit in other comprehensive income	**(3,641)**	(3,540)
Acquisition (Note 5)	**405,847**	
Other	**24**	
Deferred income taxes, December 31	**584,489**	106,915

11. TRADE PAYABLES AND ACCRUED LIABILITIES

December 31 *($ thousands)*	**2012**	2011
Trade payables	**301,936**	141,452
Non-trade payables & accrued liabilities [(1)]	**42,804**	25,194
	344,740	166,646

(1) Includes current portion of decommissioning provision of $532 (2011 - $10,720).

U.S. dollar trade payables at December 31, 2012 are $0.3 million (December 31, 2011: Nil).

12. LOANS AND BORROWINGS

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

Carrying value terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

($ thousands)				Carrying amount[3]	
	Available facilities at December 31, 2012	**Nominal interest rate**	**Year of maturity**	**December 31, 2012**	**December 31, 2011**
Operating facility[1]	30,000	prime + 0.50 or BA[2] + 1.50	2013		3,139
Revolving unsecured credit facility	1,500,000	prime + 0.50 or BA[2] + 1.50	2017	**520,676**	309,981
Senior secured notes		7.38			57,499
Senior unsecured notes – Series A	175,000	5.99	2014	**174,677**	174,462
Senior unsecured notes – Series C	200,000	5.58	2021	**196,983**	196,638
Senior unsecured notes – Series D	267,000	5.91	2019	**265,604**	265,403
Senior unsecured term facility	75,000	6.16	2014	**74,800**	74,658
Senior unsecured medium-term notes 1	250,000	4.89	2021	**248,714**	248,558
Senior unsecured medium-term notes 2	450,000	3.77	2022	**447,825**	
Subsidiary debt	9,347	5.04	2014	**9,347**	
Finance lease liabilities				**5,800**	5,650
Total interest bearing liabilities	2,956,347			**1,944,426**	1,335,988
Less current portion				**(11,652)**	(323,927)
Total non-current				**1,932,774**	1,012,061

(1) Operating facility expected to be renewed on an annual basis.
(2) Bankers' Acceptance.
(3) Deferred financing fees are all classified as non-current. Non-current carrying amount of facilities are net of deferred financing fees.

All facilities are governed by specific debt covenants which Pembina has been in compliance with during the years ended December 31, 2012 and 2011.

For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see financial instruments and financial risk management Note 27.

13. CONVERTIBLE DEBENTURES

($ thousands, 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 December 31, 2010	288,635			288,635
Conversions	(220)			(220)
Deferred financing fees (net of amortization)	950			950
Balance, December 31, 2011	289,365			289,365
Assumed on acquisition[(1)] (Note 5)		158,471	158,343	316,814
Conversions and redemptions	(54)	(351)	(55)	(460)
Accretion of liability		841	688	1,529
Deferred financing fee (net amortization)	1,168	826	726	2,720
Balance, December 31, 2012	290,479	159,787	159,702	609,968

(1) Excludes conversion feature of convertible debentures.

The Series C debentures may be converted at the option of the holder at a conversion price of $28.55 per share at any time prior to maturity and may be redeemed by the Company. The Company may, at its option after November 30, 2016, (or after November 30, 2014, 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 when the notice of redemption is given is not less than 125 percent of the conversion price of the debentures) elect to redeem the debentures by issuing shares. 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 share at any time prior to maturity and may be redeemed by the Company. The Company may, at its option on or after December 31, 2013 and 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 price of the 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 share at any time prior to maturity and may be redeemed by the Company. The Company may, at its option on or after December 31, 2014 and 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 price of the 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.

14. PROVISIONS

The Company has estimated the net present value of its total decommissioning obligations based on a total future liability of $361.7 million (2011: $416.2 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 with majority being paid between 30 and 40 years. The Company applied a 2 percent inflation rate per annum (2011: 2.4 percent) and a risk free rate of 2.36 percent (2011: 2.49 percent) to calculate the present value of the decommissioning provision. During the year ended December 31, 2012, the Company estimated a decrease of $54.5 million (2011: increase of $134.5 million) in the total decommissioning obligation, including an increase of $124.6 million assumed on the Acquisition, offset by a $144.8 million decrease due to revised assumptions which the Company believes are more in line with industry, a $46.7 million decrease (2011: increase of $106.8 million) based on a change in the discount and inflation rates used to remeasure the obligation and $7 million (2011: $7.1 million) for unwinding of the discount rate, net of any settlements and a $5.4 million increase (2011: $20.6 million increase) representing the present value of additional obligations. The remeasured decommissioning provision decreased property, plant and equipment and decommissioning provision liability. $5.9 million of the re-measurement reduction in the decommissioning provision was in excess of the carrying amount of the related asset and is recognized as a credit to depreciation expense (2011: nil).

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 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, the fair value of the liability and the cost of retirement will be recorded.

($ thousands)	**2012**	2011
Balance at January 1	**416,153**	281,694
Unwinding of discount rate	**11,956**	10,141
Assumed on acquisition (Note 5)	**124,579**	
Decommissioning liabilities settled during the period	**(4,944)**	(3,123)
Change in rates	**(46,654)**	106,793
Change in estimates and other	**(139,352)**	20,648
Total	**361,738**	416,153
Less current portion (included in accrued liabilities)	**532**	10,720
Balance at December 31	**361,206**	405,433

15. SHARE CAPITAL

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.

($ thousands, except share amounts)	**Number of Common Shares**	**Share Capital**
Balance December 31, 2010	166,876,651	1,794,536
Share-based payment transactions	1,023,916	16,978
Debenture conversions and other	7,704	220
Balance December 31, 2011	167,908,271	1,811,734
Issued on acquisition (Note 5)	116,535,750	3,283,976
Share-based payment transactions	427,934	9,221
Dividend reinvestment plan	8,338,254	218,695
Debenture conversions and other	16,264	432
Balance December 31, 2012	293,226,473	5,324,058

Dividends

The following dividends were declared by the Company:

Year Ended December 31 *($ thousands)*	**2012**	2011
$1.61 per qualifying common share (2011: $1.56)	**417,601**	261,236

On January 8, 2013 and February 12, 2013, Pembina announced that the Board of Directors declared a dividend for each of January and February of $0.135 per qualifying common share ($1.62 annualized) in the total amount of $79.5 million.

16. REVENUES

Year Ended December 31 *($ thousands)*	**2012**	2011
Rendering of Services:		
Conventional pipeline transportation	**338,772**	296,190
Oil Sands and Heavy Oil pipeline transportation	**172,429**	134,874
Midstream and marketing terminalling, storage and hub services (net)	**2,847,403**	1,173,480
Gas services gathering and processing services	**88,285**	71,506
Intersegment eliminations	**(19,487)**	
	3,427,402	1,676,050

17. COST OF SALES

Year Ended December 31 *($ thousands)*	**2012**	2011
Operating expense	**271,566**	191,923
Cost of goods sold, including product purchases	**2,475,038**	1,072,270
Depreciation and amortization – operating	**173,604**	68,012
	2,920,208	1,332,205

18. GENERAL AND ADMINISTRATIVE EXPENSE

Year Ended December 31 *($ thousands)*	**2012**	2011
Other general & administrative expense	**91,706**	59,984
Depreciation and amortization – general and administrative	**5,782**	2,207
	97,488	62,191

19. DEPRECIATION AND AMORTIZATION

Year Ended December 31 *($ thousands)*	**2012**	2011
Cost of sales	**173,604**	68,012
General and administrative	**5,782**	2,207
	179,386	70,219

20. PERSONNEL EXPENSES

Year Ended December 31 *($ thousands)*	**2012**	2011
Salaries and wages	**82,350**	57,564
Canada Pension Plan and EI remittances	**2,436**	1,717
Share-based payment transactions	**17,028**	18,651
Short-term incentive plan (bonus)	**11,430**	8,393
Defined contribution plan expense	**1,685**	878
Defined benefit pension plan expense	**7,225**	4,828
Health and dental benefit expense	**3,459**	2,232
Employee Savings plan expense	**3,946**	2,172
Other benefits	**1,573**	1,064
	131,132	97,499

21. NET FINANCE COSTS

Year Ended December 31 *($ thousands)*	**2012**	2011
Interest income from:		
Related parties	**(262)**	(876)
Bank deposits	**(1,200)**	(414)
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	**72,956**	56,722
Convertible debentures	**36,348**	18,415
Finance leases	**426**	404
Unwinding of discount	**12,021**	10,141
(Gain) loss in fair value of non-commodity-related derivative financial instruments	**(4,087)**	7,619
Foreign exchange gains	**(1,062)**	(84)
Net finance costs	**115,140**	**91,927**

22. 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 and B.C.

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 three gas plants, twelve compressor stations and over 300 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 is 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 COO. 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, 2012 *($ thousands)*	**Conventional Pipelines[1]**	**Oil Sands & Heavy Oil**	**Gas Services**	**Midstream[2]**	**Corporate & Intersegment Eliminations**	**Total**
Revenue:						
Pipeline transportation	338,772	172,429			(19,487)	491,714
NGL product and services, terminalling, storage and hub services				2,847,403		2,847,403
Gas Services			88,285			88,285
Total revenue	338,772	172,429	88,285	2,847,403	(19,487)	3,427,402
Operations	129,555	55,629	29,260	59,685	(2,563)	271,566
Cost of goods sold, including product purchases				2,494,525	(19,487)	2,475,038
Realized gain (loss) on commodity-related derivative financial instruments	111			(4,682)		(4,571)
Operating margin	209,328	116,800	59,025	288,511	2,563	676,227
Depreciation and amortization (operational)	43,959	19,800	14,546	95,299		173,604
Unrealized gain (loss) on commodity-related derivative financial instruments	(9,043)			45,143		36,100
Gross profit	156,326	97,000	44,479	238,355	2,563	538,723
Depreciation included in general and administrative					5,782	5,782
Other general and administrative	6,692	3,771	4,130	15,478	61,635	91,706
Acquisition-related and other expenses (income)	957	297	11	434	23,049	24,748
Reportable segment results from operating activities	148,677	92,932	40,338	222,443	(87,903)	416,487
Net finance costs (income)	6,192	1,889	800	3,205	103,054	115,140
Reportable segment earnings (loss) before tax and income from equity accounted investees	142,485	91,043	39,538	219,238	(190,957)	301,347
Share of loss of investments in equity accounted investees, net of tax				1,056		1,056
Capital expenditures	187,264	30,432	162,838	203,969	(189)	584,314

(1) 5.1 percent of Conventional Pipelines revenue is under regulated tolling arrangements.
(2) NGL product and services, terminalling, storage and hub services revenue includes $97.1 million associated with U.S. midstream sales.

Year Ended December 31, 2011 *($ thousands)*	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Gas Services	Midstream	Corporate & Intersegment Eliminations	Total
Revenue:						
Pipeline transportation	296,190	134,874				431,064
Terminalling, storage and hub services				1,173,480		1,173,480
Gas Services			71,506			71,506
Total revenue	296,190	134,874	71,506	1,173,480		1,676,050
Operations	119,093	43,986	22,407	8,833	(2,396)	191,923
Cost of goods sold, including product purchases				1,072,270		1,072,270
Realized gain (loss) on commodity-related derivative financial instruments	4,413			882		5,295
Operating margin	181,510	90,888	49,099	93,259	2,396	417,152
Depreciation and amortization (operational)	41,595	12,786	9,921	3,710		68,012
Unrealized gain (loss) on commodity-related derivative financial instruments	3,743			1,433		5,176
Gross profit	143,658	78,102	39,178	90,982	2,396	354,316
Depreciation included in general and administrative					2,207	2,207
Other general and administrative	6,421	2,898	4,117	5,234	41,314	59,984
Acquisition-related and other expenses (income)	1,018	(127)	6	2	530	1,429
Reportable segment results from operating activities	136,219	75,331	35,055	85,746	(41,655)	290,696
Net finance costs	7,110	1,729	999	109	81,980	91,927
Reportable segment earnings (loss) before tax and income from equity accounted investees	129,109	73,602	34,056	85,637	(123,635)	198,769
Share of loss (profit) of investments in equity accounted investees, net of tax				(5,766)		(5,766)
Capital expenditures	72,034	191,723	136,505	111,480	15,852	527,594

[1] 4.8 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

23. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at December 31, 2012 was based on the earnings attributable to common shareholders of $224.8 million (2011: $165.7 million) and a weighted average number of common shares outstanding of 258.9 million (2011: 167.4 million).

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2012 was based on earnings attributable to common shareholders of $224.8 million (December 31, 2011: $165.7 million), and weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 259.5 million (2011: 168.2 million), calculated as follows:

Weighted average number of common shares

(In thousands of shares)	**2012**	2011
Issued common shares at January 1	**167,908**	166,877
Effect of shares issued on acquisition	**87,243**	
Effect of share options exercised	**185**	556
Effect of conversion of convertible debentures	**9**	
Effect of shares issued under dividend reinvestment plan	**3,524**	
Weighted average number of common shares at December 31 (basic)	**258,869**	167,433
Dilutive effect of conversion of convertible debentures		
Dilutive effect of share options on issue	**614**	742
Weighted average number of common shares at December 31 (diluted)	**259,483**	168,175
Basic earnings per share ($)	**0.87**	0.99
Diluted earnings per share ($)	**0.87**	0.99

At December 31, 2012, the effect of the conversion of the convertible debentures was excluded from the diluted earnings per share calculation as the impact was anti-dilutive. If the convertible debentures were included, an additional 23.3 million (2011: 10.5 million) common shares would be added to the weighted average number of common shares and $27.3 million (2011: $13.8 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.

24. CHANGES IN NON-CASH WORKING CAPITAL

Year Ended December 31 *($ thousands)*	**2012**	2011
Accounts receivable, inventory and other	**6,043**	(30,388)
Accounts payable and accrued liabilities	**(115,924)**	10,091
Change in non-cash operating working capital	**(109,881)**	(20,297)

25. EMPLOYEE BENEFITS

December 31 *($ thousands)*	**2012**	2011
Registered defined benefit obligation	**21,394**	10,755
Supplemental defined benefit obligation	**6,180**	5,092
Other accrued benefit obligations	**1,049**	1,104
Employee benefit obligations	**28,623**	16,951

The Company maintains a defined contribution plan and non-contributory defined pension plans covering its employees. 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. Benefits under the plans are based on the length of service and the annual average best three years of earnings during 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, 2009.

Defined benefit obligations

December 31	2012		2011	
($ thousands)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Present value of unfunded obligations		6,180		5,092
Present value of funded obligations	121,783		100,138	
Total present value of obligations	121,783	6,180	100,138	5,092
Fair value of plan assets	100,389		89,383	
Recognized liability for defined benefit obligations	(21,394)	(6,180)	(10,755)	(5,092)

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, 2012 (2011: $8 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 decreases in the defined benefit asset is necessary at December 31, 2012 and December 31, 2011.

Registered defined benefit pension plan assets comprise

December 31 *(percentages)*	**2012**	2011
Equity securities	**65.1**	64.1
Debt	**30.1**	30.8
Other	**4.8**	5.1
	100.0	100.0

Movement in the present value of the pension obligation

Year Ended December 31	2012		2011	
($ thousands)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Defined benefits obligations at January 1	**100,138**	**5,092**	90,090	4,382
Benefits paid by the plan	**(5,896)**	**(66)**	(6,108)	
Current service costs and interest	**12,009**	**504**	9,944	402
Actuarial losses in other comprehensive income	**15,532**	**650**	6,212	308
Defined benefit obligations at December 31	**121,783**	**6,180**	100,138	5,092

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

Year Ended December 31 *($ thousands)*	**2012**	2011
Fair value of plan assets at January 1	**89,383**	89,609
Contributions paid into the plan	**10,000**	8,000
Benefits paid by the plan	**(5,896)**	(6,108)
Expected return on plan assets	**5,288**	5,521
Actuarial (losses) gains in other comprehensive income	**1,614**	(7,639)
Fair value of registered plan assets at December 31	**100,389**	89,383

Expense recognition in profit or loss

Year Ended December 31	2012		2011	
($ thousands)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Current service costs	**6,655**	**232**	4,780	149
Interest on obligation	**5,354**	**272**	5,164	253
Expected return on plan assets	**(5,288)**		(5,521)	
	6,721	**504**	4,423	402

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

Year Ended December 31	2012		2011	
($ thousands)	**Registered Plan**	**Supplemental Plan**	**Registered Plan**	**Supplemental Plan**
Operating expenses	**3,734**		2,771	
General and administrative expense	**2,987**	**504**	1,652	402
	6,721	**504**	4,423	402
Actual return on plan assets	**6,902**		(2,118)	

Actuarial gains and losses recognized in other comprehensive income

	2012			2011		
($ thousands)	**Registered Plan**	**Supplemental Plan**	**Total**	Registered Plan	Supplemental Plan	Total
Cumulative amount at January 1	**15,050**	**146**	**15,196**	4,662	(85)	4,577
Recognized during the period after tax	**10,439**	**488**	**10,927**	10,388	231	10,619
Cumulative amount at December 31	**25,489**	**634**	**26,123**	15,050	146	15,196

Principal actuarial assumptions used as at December 31 (expressed as weighted averages):

	2012	2011
Discount rate	**4.4%**	5.2%
Expected long-term rate of return on plan assets	**5.8%**	6.1%
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)*	**2012**	2011
Longevity at age 65 for current pensioners		
Males	**19.8**	19.7
Females	**22.1**	22.1
Longevity at age 65 for current member aged 45		
Males	**21.3**	21.2
Females	**22.9**	22.9

The calculation of the defined benefit obligation is sensitive to the discount rate, compensation increases, retirements and termination rates as set out above. An increase or decrease of the estimated discount rate of 4.4 percent by 100 basis points at December 31, 2012 is considered reasonably possible in the next financial year. A discount rate of 5.4 percent would decrease the obligation by $18.2 million. A discount rate of 3.4 percent would increase the obligation by $23.2 million.

The overall expected long-term rate of return on assets is 5.8 percent. The expected long-term rate of return is based on the portfolio as a whole and not the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Historical information

December 31	2011		2010	
($ thousands)	Registered Plan	Supplemental Plan	Registered Plan	Supplemental Plan
Present value of the defined benefit obligation	100,138	5,092	90,090	4,382
Fair value of plan assets	89,383		89,609	
(Deficit) in the plan	(10,755)	(5,092)	(481)	(4,382)
Experience adjustments arising on plan liabilities			886	356
Experience adjustments arising on plan assets	7,639		(2,968)	

December 31	2009		2008	
($ thousands)	Registered Plan	Supplemental Plan	Registered Plan	Supplemental Plan
Present value of the defined benefit obligation	76,873	4,110	58,359	3,000
Fair value of plan assets	78,852		60,682	
(Deficit)/surplus in the plan	1,979	(4,110)	2,323	(3,000)
Experience adjustments arising on plan liabilities	1,402	(14)		211
Experience adjustments arising on plan assets	(7,417)		17,702	

The Company expects $12.6 million in contributions to be paid to its defined benefit plans in 2013.

26. SHARE-BASED PAYMENTS

At December 31, 2012, 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 *(Number of units in thousands)*	**Number of Options in thousands**	**Contractual life of options**
August 3, 2011	1,052	7 years
October 1, 2011	48	7 years
January 3, 2012	55	7 years
April 2, 2012	19	7 years
August 9, 2012	1,372	7 years
October 1, 2012	49	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 *(Number of units in thousands)*	**Units**	**Contractual life of PSU**
January 1, 2011	284	3.0 years
January 1, 2012	188	3.0 years
April 2, 2012 (on acquisition)	201	2.2 years

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

Grant date RSUs to Officers, Non-Officers[(2)] and Directors *(Number of units in thousands)*	**Units**	**Contractual life of RSU**
January 1, 2011	185	3.0 years
January 1, 2012	186	3.0 Years
April 2, 2012 (on acquisition)	177	2.2 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:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2010	2,759,259	16.43
Granted	1,100,800	25.29
Exercised	(1,023,916)	15.48
Forfeited	(161,763)	19.75
Outstanding at December 31, 2011	2,674,380	20.24
Granted	1,495,050	26.70
Exercised	(427,934)	16.96
Forfeited or expired	(209,858)	24.73
Outstanding as at December 31, 2012	3,531,638	23.11

As of December 31, 2012, the following options are outstanding:

Exercise Price *(dollars)*	Number outstanding at December 31, 2012	Options Exercisable	Weighted average remaining life *(years)*
$14.18 – $17.99	589,433	589,433	1.5
$18.00 – 20.99	593,380	369,124	4.6
$21.00 – $30.06	2,348,825	288,723	6.2

The weighted average share price at the date of exercise for share options exercised in the year ended December 31, 2012 was $28.28 (December 31, 2011: $24.64).

Expected volatility 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)*		**2012**		2011
Weighted average				
Fair value at grant date	**$**	**2.10**	$	2.72
Share price at grant date	**$**	**26.68**	$	25.72
Exercise price	**$**	**26.70**	$	25.29
Expected volatility		**21.4%**		24.7%
Expected option life (years)		**3.67**		3.67
Expected annual dividends per option	**$**	**1.61**	$	1.56
Expected forfeitures		**7.9%**		7.0%
Risk-free interest rate (based on government bonds)		**1.3%**		1.6%

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 $28.46 (December 31, 2011: $29.66). 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	**2012**	2011
Number of share units granted	**752,187**	469,253

Employee expenses

($ thousands)	**2012**	2011
Share option plan, equity settled	**1,828**	1,097
Long-term share unit award incentive plan	**15,200**	17,554
Total expense recognized as employee costs	**17,028**	18,651
Total carrying amount of liabilities for cash settled arrangements	**33,506**	22,971
Total intrinsic value of liability for vested benefits	**16,267**	8,911

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Economic hedges

The Company has entered into derivative financial instruments to limit the exposures to changes in commodity prices, interest rates, cost of power and foreign currency exchange rates. Hedge accounting has not been applied, however the Company still considers that there is an economic hedge which limits the exposure to fluctuations in revenue and expenses.

Financial risk

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed. 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. The Company's Risk Management function assists in managing these risks. The Company's primary risk management objective is to protect capital resources, earnings and cash flow.

Counterparty credit risk

Counterparty credit risk is the risk of financial loss to the Company if a customer, partner or 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 and which arise 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 financial assets represents the maximum credit exposure to the Company. The maximum counterparty credit exposure to counterparty credit risk at the reporting date was:

	Carrying Amount	
December 31		
($ thousands)	**2012**	2011
Cash and cash equivalents	**27,336**	
Trade and other receivables	**334,772**	159,081
Derivative financial instruments	**7,871**	6,450
	369,979	165,531

The Company manages counterparty credit risk for its cash and cash equivalents by maintaining bank accounts with Schedule 1 banks. The Company has minimal counterparty credit risk related to its receivables as a majority of these amounts are with large established counterparties in the oil and gas industry and are subject to the terms of the Company's shipping rules and regulations or pursuant to contracts. The rules and regulations permit the Company to receive and hold financial assurances against a counterparty to cover current and aged receivables when warranted. Balances are generally payable the 25th day of the following month. This date coincides with the date on which oil and gas companies receive payment from industry partners and counterparties. Typically, the Company has collected its receivables in full and at December 31, 2012, approximately 93 percent were current. The Company also maintains lien rights on the oil and NGL that are in its custody during the transportation of such products on the pipeline as well as the right to offset for single shipper operations. Therefore, the risk of non-collection is considered to be low and no impairment of receivables has been made.

Additionally, counterparty credit risk is mitigated 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, using contract netting arrangements and obtaining financial assurances when warranted. In general, financial assurances include guarantees, letters of credit and cash. 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. Letters of credit mitigate the counterparty credit risk on $44.6 million (December 31, 2011: $7.8 million) of the receivables balance. The Company's assessment of a counterparty's creditworthiness includes external credit ratings, where available, and in other cases, detailed financial and other assessments which generate an internal credit rating based on financial ratios. Counterparty exposure limits are established for each counterparty representing the maximum unsecured dollar amount in conjunction with an associated counterparty exposure limit approval authority matrix which has been approved by the Risk Management Committee. The Company continues to closely monitor and reassess its counterparty exposure limits on an ongoing basis.

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 and excluding the impact of netting agreements.

			Outstanding balances due by period				
December 31, 2012 *($ thousands)*	Carrying Amount	Expected Cash Flows	6 Months or Less	6 – 12 Months	1 – 2 Years	2 – 5 Years	More Than 5 Years
Trade payables and accrued liabilities	344,208	344,208	344,208				
Loans and borrowings	1,938,626	2,446,733	44,927	35,637	312,765	693,389	1,360,015
Finance lease liabilities	5,800	7,101	1,327	1,327	1,823	2,624	
Convertible debentures	609,968	903,475	19,607	19,607	39,360	291,204	533,697
Dividends payable	39,586	39,586	39,586				
Derivative financial liabilities	67,691	67,691	11,532	4,400	16,774	25,115	9,870

			Outstanding balances due by period				
December 31, 2011 *($ thousands)*	Carrying Amount	Expected Cash Flows	6 Months or Less	6 – 12 Months	1 – 2 Years	2 – 5 Years	More Than 5 Years
Bank overdraft	676	676	676				
Trade payables and accrued liabilities	155,926	155,926	155,926				
Unsecured notes and credit facilities	1,272,838	1,663,644	27,120	340,285	350,445	117,494	828,300
Senior secured notes	57,499	70,909	6,257	6,257	25,027	33,368	
Finance lease liabilities	5,650	7,742	1,273	1,273	1,942	3,254	
Convertible debentures	289,365	299,780					299,780
Dividends payable	21,828	21,828	21,828				
Derivative financial liabilities	17,539	18,460	2,385	2,385	3,670	6,438	3,582

The Company's approach to managing liquidity risk is to ensure funds and credit facilities are available to meet its short-term obligations. Management monitors daily cash positions and performs cash forecasts weekly to determine cash requirements. On a monthly basis, Management typically forecasts cash flows for a period of 12 months 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

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risk is generally comprised of price risk, currency risk and interest rate risk.

a. Price risk

Commodity price volatility and market location differentials affect the Midstream business. In addition, Midstream is exposed to possible price declines between the time Pembina purchases NGL feedstock and sells NGL products, and to narrowing frac spreads. Frac spreads are the difference between the selling prices for propane-plus and the input cost of the natural gas required to produce the respective NGL products.

Pembina responds to these risks using a market risk management program to protect margins on a portion of its natural gas based supply sales contracts, and to manage physical contract exposure while retaining some ability to participate in a widening margin environment. The Company uses derivative financial instruments to manage exposure to commodity prices and power costs. The Company does not trade financial instruments for speculative purposes. The derivative instruments include participating swaps and fixed price swap contracts that settle against indexed reference pricing. Participating swaps are contracts that provide a floor and ceiling for a certain percentage of the volume of a contract. A swap contract is an agreement where a floating price is exchanged for a fixed price over a specified period.

b. Currency risk

Pembina's commodity sales are exposed to both positive and negative effects of fluctuations in the Canadian/U.S. exchange rate. Pembina manages this exposure by matching a significant portion of the cash costs that it expects with revenues in the same currency. In addition, Pembina uses derivative instruments to manage the U.S. cash requirements of its business.

Pembina regularly sells or purchases a portion of expected U.S. cashflows. Pembina's also manages the exposure it has to fluctuations in the U.S./Canadian dollar exchange rate when the underlying commodity price is based upon a U.S. index price. Pembina may also use derivative products that provide for protection against a stronger Canadian dollar, while allowing it to participate if the currency weakens relative to the U.S. dollar.

c. Interest rate risk

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

($ thousands)	Carrying Amounts of Financial Liability	
December 31	**2012**	2011
Fixed rate instruments	**(1,417,950)**	(1,324,758)
Variable rate instruments	**(520,675)**	(319,465)

The Company uses swap contracts to manage exposure to variable interest rates.

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 profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

December 31 *($ thousands)*	**2012**	2011
	± 100 bp	± 100 bp
Variable rate instruments	**± 5,250**	± 3,149
Interest rate swap	**± (3,800)**	± (2,000)
Profit or loss sensitivity (net)	**± 1,450**	± 1,149

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	**2012**		2011	
($ thousands)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets carried at fair value				
Derivative financial instruments	**7,871**	**7,871**	6,450	6,450
Financial assets carried at amortized cost				
Cash and cash equivalents	**27,336**	**27,336**		
Trade and other receivables	**334,772**	**334,772**	159,081	159,081
	362,108	**362,108**	159,081	159,081
Financial liabilities carried at fair value				
Derivative financial instruments	**67,691**	**67,691**	17,538	17,538
Financial liabilities carried at amortized cost				
Bank overdraft			676	676
Trade payables and accrued liabilities	**344,208**	**344,208**	155,926	155,926
Finance lease liabilities	**5,800**	**6,170**	5,650	5,948
Dividends payable	**39,586**	**39,586**	21,828	21,828
Loans and borrowings	**1,938,626**	**2,083,505**	1,272,838	1,391,895
Senior secured notes			57,499	65,567
Convertible debentures	**609,968**(1)	**725,074**	289,365	326,760
	2,938,188	**3,198,543**	1,803,782	1,968,600

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

The basis for determining fair values is disclosed in Note 4.

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	**2012**	2011
Derivatives	**1.2% - 2.5%**	1.1% - 1.8%
Loans and borrowings	**2.0% - 3.7%**	2.2% - 4.2%
Leases	**4.4%**	4.8%

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

Fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices. Pembina obtains quoted market prices for commodities, future power contracts, interest rates and foreign exchange rates from information sources including banks, Bloomberg Terminals and Natural Gas Exchange (NGX). With the exception of one item described under Level 3, all of Pembina's financial instruments carried at fair value are valued using Level 2 inputs.

Level 3: Valuations in this level require the most significant judgments and consist primarily of unobservable or non-market based inputs. Level 3 inputs include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value. The redemption liability related to Three Star is classified as a Level 3 instrument, as the fair value is determined by using inputs that are not based on observable market data. The liability represents a put option, held by the non-controlling interest of Three Star, to sell the remaining one-third of the business to Pembina after the third anniversary of the original acquisition date (October 3, 2014). The put price to be paid by the Company for the residual interest upon exercise is based on a multiple of Three Star's earnings during the three year period prior to exercise, adjusted for associated capital expenditures and debt based on management estimates. These estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

Financial instruments classified as Level 3

($ thousands)	**2012**	2011
Redemption liability, beginning of year		
Assumed on acquisition	**6,183**	
Accretion of liability	**65**	
Gain on revaluation	**(962)**	
Redemption liability, end of year	**5,286**	

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

As at December 31 *($ thousands)*	**2012**	2011
Frac spread related	**(3,068)**	
Product margin	**(1,088)**	2,267
Corporate		
Power	**(7,100)**	4,183
Interest rate	**(14,302)**	(17,538)
Foreign exchange	**653**	
Other derivative financial instruments		
Conversion feature of convertible debentures (Note 13)	**(29,629)**	
Redemption liability related to acquisition of subsidiary	**(5,286)**	
Net derivative financial instruments liability	**(59,820)**	(11,088)

In conjunction with the Acquisition, the Company assumed all of the rights and obligations of Provident relating to the Provident Debentures which included a $29.7 million liability for the conversion feature of the Provident Debentures. These convertible debentures contain a cash conversion option which is measured at fair value through profit and loss at each reporting date, with any unrealized gains or losses arising from fair value changes reported in the consolidated statement of comprehensive income. This resulted in the Company recording a gain of $0.1 million on the revaluation on the conversion feature of convertible debentures in profit and loss in net finance costs for the year ended December 31, 2012.

Commodity-Related Derivative Financial Instruments	**Year Ended December 31**	
($ thousands)	**2012**	2011
Realized (loss) gain on commodity-related derivative financial instruments		
Frac spread related	**(4,497)**	
Product margin	**(141)**	882
Power	**67**	4,413
Realized (loss) gain on commodity-related derivative financial instruments	**(4,571)**	5,295
Unrealized gain on commodity-related derivative financial instruments	**36,100**	5,176
Gain on commodity-related derivative financial instruments	**31,529**	10,471

For non-commodity-related derivative financial instruments see Note 21, Net Finance Costs.

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.

As at December 31, 2012 *($ thousands)*		**+ Change**	**- Change**
Frac spread related			
Natural gas	(AECO +/- $1.00 per GJ)	6,724	(6,724)
NGL (includes propane, butane)	(Belvieu +/- U.S. $0.10 per gal)	(3,991)	3,991
Foreign exchange (U.S.$ vs. Cdn$)	(FX rate +/- $0.05)	(3,637)	3,637
Product margin			
Crude oil	(WTI +/- $5.00 per bbl)	(6,387)	6,387
NGL (includes propane, butane and condensate)	(Belvieu +/- U.S. $0.10 per gal)	6,112	(6,112)
Corporate			
Interest rate	(Rate +/- 50 basis points)	3,857	(3,857)
Power	(AESO +/- $5.00 per MW/h)	3,631	(3,631)
Conversion feature of convertible debentures	(Pembina share price +/- $0.50 per share)	(2,761)	2,629

28. OPERATING LEASES

Leases as lessee

Operating lease rentals are payable as follows:

December 31 *($ thousands)*	**2012**	2011
Less than 1 year	**22,754**	6,237
Between 1 and 5 years	**109,542**	20,021
More than 5 years	**153,574**	40,494
	285,870	66,752

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 of $51.4 million over the term.

During the year ended December 31, 2012, an amount of $7.1 million was recognized as an expense in profit or loss in respect of operating leases (December 31, 2011: $3.8 million).

29. 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 Enterprise Value (market value of common shares and convertible debentures), 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 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, 2012.

Note 15 of these financial statements demonstrates the change in Share Capital for the year ended December 31, 2012.

30. GROUP ENTITIES

Significant subsidiaries

	Ownership Interest	
December 31 *(percentages)*	**2012**	2011
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 North Limited Partnership	**100**	100
Pembina West Limited Partnership	**100**	100
Pembina NGL Corporation	**100**	
Pembina Facilities NGL LP	**100**	
Pembina Infrastructure and Logistics LP	**100**	
Pembina Empress NGL Partnership	**100**	
Pembina Resource Services Canada	**100**	
Pembina Resource Services (U.S.A.)	**100**	
Three Star Trucking Ltd.	**67**	

31. RELATED PARTIES

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

Investments in equity accounted investees

Officers of Pembina Pipeline Corporation, the ultimate controlling party, are Directors of Fort Saskatchewan Ethylene Storage Corporation ("FSESC"), the parent of Fort Saskatchewan Ethylene Storage Limited Partnership ("FSESLP"). FSESLP and FSESC are both recognized as investments in joint ventures under the equity method on Pembina's financial statements. Results from operating activities are recorded as Share of Profit from Equity Accounted Investees on Pembina's Statement of Comprehensive Income, representing a 50 percent interest in the joint ventures.

($ thousands)			Transaction Value Year Ended December 31		Balance Outstanding As At December 31	
			2012	2011	**2012**	2011
Related Party	Transaction	Note				
FSESLP	Interest revenue		**262**	876		
	Loan receivable					17,903

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 *($ thousands)*	**2012**	2011
Short-term employee benefits	**2,743**	2,802
Post-employment benefits	**231**	207
Share-based compensation	**5,806**	6,150
Other compensation	**121**	112
Total compensation of key management	**8,901**	9,271

Transactions

Key management personnel and directors of the Company control 0.5 percent (2011: 0.8 percent) of the voting common shares of the Company. Certain directors and key management personnel also hold Pembina convertible debentures. 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

($ thousands)		Transaction Value Year Ended December 31		Balance Outstanding As At December 31	
Post-employment benefit plan	Transaction	**2012**	2011	**2012**	2011
Defined benefit plan	Funding	**10,000**	8,000		

EXHIBIT 99.4

CERTIFICATION REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert B. Michaleski, certify that:

1. I have reviewed this annual report on Form 40-F of Pembina Pipeline Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 1, 2013

/s/ Robert B. Michaleski

Name: Robert B. Michaleski
Title: Chief Executive Officer

EXHIBIT 99.5

CERTIFICATION REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter D. Robertson, certify that:

1. I have reviewed this annual report on Form 40-F of Pembina Pipeline Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 1, 2013

/s/ Peter D. Robertson

Name: Peter D. Robertson
Title: Vice President, Finance and Chief Financial Officer

Exhibit 99.6

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pembina Pipeline Corporation (the "Company") on Form 40-F for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert B. Michaleski, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of the operations of the Company.

Date: March 1, 2013

/s/ Robert B. Michaleski
Robert B. Michaleski
Chief Executive Officer

Exhibit 99.7

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pembina Pipeline Corporation (the "Company") on Form 40-F for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter D. Robertson, Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of the operations of the Company.

Date: March 1, 2013

/s/ Peter D. Robertson
Peter D. Robertson
Vice President, Finance and Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

The Board of Directors of Pembina Pipeline Corporation

We consent to the use of our report dated March 1, 2013, with respect to the consolidated financial statements included in this annual report on Form 40-F.

/s/ KPMG LLP

Chartered Accountants
March 1, 2013
Calgary, Canada