



Financial Statements & Notes



MANAGEMENT'S REPORT

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

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

Management's Assessment of Internal Controls over Financial Reporting

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

Management, including the CEO and the CFO, has conducted an evaluation of Pembina's internal control over financial reporting based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment as at December 31, 2017, the CEO and CFO have concluded that Pembina's internal control over financial reporting is effective.

In accordance with the provisions of NI 52-109 and consistent with SEC guidance, the scope of the evaluation did not include internal controls over financial reporting of Veresen, which the Company acquired on October 2, 2017. Veresen was excluded from management's evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2017 due to the proximity of the Acquisition to year-end. Further details related to the Acquisition are disclosed in Note 6 to the Company's Consolidated Financial Statements for the year ended December 31, 2017. Veresen's assets and revenue represented approximately 28 percent and nil percent, respectively, of the Company's total assets and revenue as at December 31, 2017. Share of profit from Veresen's equity accounted investees amounted to \$116 million from the date of acquisition.

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

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

KPMG LLP, the independent auditors, have audited the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), and have also audited the effectiveness of Pembina's internal control over financial reporting as of December 31, 2017 and has included an attestation report on management's assessment in their reports which follow. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.

Changes in Internal Controls over Financial Reporting

The Company's internal controls over financial reporting commencing October 2, 2017 include Veresen's systems, processes and controls, as well as additional controls designed to result in complete and accurate consolidation of Veresen's results. Other than Veresen, there has been no change in the Company's internal control over financial reporting that occurred during the year covered by this Annual Report that has materially affected, or are reasonably likely to materially affect, Pembina's internal control over financial reporting.



M. H. Dilger

President and Chief Executive Officer
Pembina Pipeline Corporation



J. Scott Burrows

Senior Vice President and Chief Financial Officer
Pembina Pipeline Corporation

February 22, 2018



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Pembina Pipeline Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pembina Pipeline Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

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, 2017 and December 31, 2016, 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.

Report on Internal Control over Financial Reporting

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), Pembina Pipeline Corporation's internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2018, expressed an unqualified (unmodified) opinion on the effectiveness of Pembina Pipeline Corporation's internal control over financial reporting.

Basis for Opinion

A – 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.

B – Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to



Pembina Pipeline Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and PCAOB. We are a public accounting firm registered with the PCAOB.

An audit includes performing procedures to assess the risks of material misstatements of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding 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 Pembina Pipeline Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of accounting policies and principles 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 reasonable basis for our audit opinion.

KPMG LLP

Chartered Professional Accountants

We have served as Pembina Pipeline Corporation's auditor since 1997.

February 22, 2018

Calgary, Canada



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Pembina Pipeline Corporation

Opinion on Internal Control over Financial Reporting

We have audited Pembina Pipeline Corporation's (the "Corporation") internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Corporation acquired Veresen Inc. on October 2, 2017, and management excluded from its assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2017, Veresen Inc.'s internal control over financial reporting associated with approximately 28 percent of total assets and nil percent of total revenues included in the consolidated financial statements of the Corporation as of and for the year ended December 31, 2017. Share of profit from Veresen Inc.'s equity accounted investees were \$116 million from the date of the acquisition. Our audit of internal control over financial reporting of the Corporation also excluded an evaluation of the internal control over financial reporting of Veresen Inc.

Report on the Consolidated Financial Statements

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements") and our report dated February 22, 2018 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

Basis for Opinion

The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities



and Exchange Commission and the PCAOB and in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

KPMG LLP

Chartered Professional Accountants

February 22, 2018
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>As at December 31 (\$ millions)</i>	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents		321	35
Trade receivables and other	7	529	451
Derivative financial instruments	24	4	9
Inventory		168	181
		1,022	676
Non-current assets			
Property, plant and equipment	8	13,546	11,331
Intangible assets and goodwill	9	4,714	2,834
Investments in equity accounted investees	10	6,229	134
Deferred tax assets	11		31
Advances to related parties	28	42	
Other assets		13	11
		24,544	14,341
Total Assets		25,566	15,017
Liabilities and Equity			
Current liabilities			
Trade payables and accrued liabilities	12	713	638
Taxes payable	11	3	5
Dividends payable		91	64
Loans and borrowings	13	163	6
Convertible debentures	14	93	
Derivative financial instruments	24	79	65
		1,142	778
Non-current liabilities			
Loans and borrowings	13	7,300	4,002
Convertible debentures	14		143
Derivative financial instruments	24		58
Employee benefits, share-based payments and other		66	48
Deferred revenue	17	136	86
Decommissioning provision	15	546	488
Taxes payable	11	22	
Deferred tax liabilities	11	2,376	1,111
Other liabilities		129	7
		10,575	5,943
Total Liabilities		11,717	6,721
Equity			
Common share capital	16	13,447	8,808
Preferred share capital	16	2,424	1,509
Deficit		(2,075)	(2,010)
Accumulated other comprehensive income		(7)	(11)
		13,789	8,296
Non-controlling interest	6	60	
Total Equity		13,849	8,296
Total Liabilities and Equity		25,566	15,017

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Year Ended December 31 (\$ millions, except per share amounts)	Note	2017	2016
Revenue	20	5,408	4,265
Cost of sales		3,971	3,193
Loss on commodity-related derivative financial instruments		71	71
Share of profit of investments in equity accounted investees	10	116	1
Gross profit		1,482	1,002
General and administrative		236	195
Other expense (income)		28	(1)
Results from operating activities		1,218	808
Net finance costs	19	185	153
Earnings before income tax		1,033	655
Current tax expense	11	48	50
Deferred tax expense	11	94	139
Income tax expense		142	189
Earnings attributable to shareholders		891	466
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations		1	(9)
Remeasurements of defined benefit liability, net of tax	22	3	(5)
Total comprehensive income attributable to shareholders		895	452
Earnings per common share – basic (dollars)	21	1.89	1.02
Earnings per common share – diluted (dollars)	21	1.88	1.01
Weighted average number of common shares (millions)			
Basic	21	426	388
Diluted	21	432	389

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$ millions)	Note	Attributable to Shareholders of the Company					Non-controlling interest	Total Equity
		Common share capital	Preferred share capital	Deficit	Accumulated other comprehensive income	Total		
December 31, 2016		8,808	1,509	(2,010)	(11)	8,296	8,296	
Total comprehensive income								
Earnings				891		891	891	
Other comprehensive income								
Exchange differences on translation of foreign operations					1	1	1	
Remeasurements of defined benefit liability, net of tax					3	3	3	
Total comprehensive income				891	4	895	895	
Transactions with shareholders of the Company								
Common shares issued, net of issue costs		4,356				4,356	4,356	
Preferred shares issued, net of issue costs			915			915	915	
Dividend reinvestment plan	16	148				148	148	
Debenture conversions	16	73				73	73	
Share-based payment transactions	16	62				62	62	
Dividends declared – common	16			(873)		(873)	(873)	
Dividends declared – preferred	16			(83)		(83)	(83)	
Total transactions with shareholders of the Company		4,639	915	(956)		4,598	4,598	
Non-controlling interest recognized on Acquisition	6						60	
December 31, 2017		13,447	2,424	(2,075)	(7)	13,789	60	
December 31, 2015		7,991	1,100	(1,670)	3	7,424	7,424	
Total comprehensive income								
Earnings				466		466	466	
Other comprehensive income								
Exchange differences on translation of foreign operations					(9)	(9)	(9)	
Remeasurements of defined benefit liability, net of tax					(5)	(5)	(5)	
Total comprehensive income				466	(14)	452	452	
Transactions with shareholders of the Company								
Common shares issued, net of issue costs		335				335	335	
Preferred shares issued, net of issue costs			409			409	409	
Dividend reinvestment plan		449				449	449	
Debenture conversions		2				2	2	
Share-based payment transactions		31				31	31	
Dividends declared – common				(737)		(737)	(737)	
Dividends declared – preferred				(69)		(69)	(69)	

(\$ millions)	Note	Attributable to Shareholders of the Company				Total	Non-controlling interest	Total Equity
		Common share capital	Preferred share capital	Deficit	Accumulated other comprehensive income			
Total transactions with shareholders of the Company		817	409	(806)		420		420
December 31, 2016		8,808	1,509	(2,010)	(11)	8,296		8,296

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ millions)	Note	2017	2016
Cash provided by (used in)			
Operating activities			
Earnings		891	466
Adjustments for			
Share of profit of investments in equity accounted investees		(116)	(1)
Distributions from equity accounted investees		157	13
Depreciation and amortization		382	293
Unrealized (gain) loss on commodity-related derivative financial instruments		(23)	61
Net finance costs	19	185	153
Net interest paid		(153)	(91)
Income tax expense	11	142	189
Taxes paid	11	(30)	(3)
Share-based compensation expense	23	73	46
Share-based compensation payment		(22)	(20)
Loss on asset disposal		12	10
Payments received and deferred		49	2
Amortization of deferred revenue		(16)	(5)
Change in non-cash operating working capital		(18)	(36)
Cash flow from operating activities		1,513	1,077
Financing activities			
Bank borrowings and issuance of debt		2,542	650
Repayment of loans and borrowings		(1,279)	(333)
Issuance of common shares			345
Issuance of preferred shares		400	420
Issuance of medium term notes		1,200	500
Issue costs and financing fees		(23)	(31)
Exercise of stock options		46	16
Dividends paid (net of shares issued under the dividend reinvestment plan)		(781)	(351)
Cash flow from financing activities		2,105	1,216
Investing activities			
Capital expenditures		(1,839)	(1,745)
Contributions to investments in equity accounted investees		(7)	(2)
Acquisitions		(1,338)	(566)
Interest paid during construction	19	(63)	(72)
Recovery of assets or proceeds from sale		2	37
Advances to related parties		(23)	
Changes in non-cash investing working capital and other		(64)	62
Cash flow used in investing activities		(3,332)	(2,286)
Change in cash and cash equivalents		286	7
Cash and cash equivalents, beginning of year		35	28
Cash and cash equivalents, end of year		321	35

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY	63
2. BASIS OF PREPARATION	63
3. CHANGES IN ACCOUNTING POLICIES.....	65
4. SIGNIFICANT ACCOUNTING POLICIES	65
5. DETERMINATION OF FAIR VALUES	79
6. ACQUISITION.....	81
7. TRADE RECEIVABLES AND OTHER	82
8. PROPERTY, PLANT AND EQUIPMENT	83
9. INTANGIBLE ASSETS AND GOODWILL	84
10. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES	86
11. INCOME TAXES.....	87
12. TRADE PAYABLES AND ACCRUED LIABILITIES	89
13. LOANS AND BORROWINGS	90
14. CONVERTIBLE DEBENTURES	91
15. DECOMMISSIONING PROVISION	91
16. SHARE CAPITAL	92
17. DEFERRED REVENUE	96
18. PERSONNEL EXPENSES.....	96
19. NET FINANCE COSTS	96
20. OPERATING SEGMENTS.....	96
21. EARNINGS PER COMMON SHARE	100
22. PENSION PLAN	101
23. SHARE-BASED PAYMENTS	103
24. FINANCIAL INSTRUMENTS	106
25. OPERATING LEASES	112
26. CAPITAL MANAGEMENT	112
27. GROUP ENTITIES	113
28. RELATED PARTIES	113

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 investments in associates and joint arrangements as at and for the year ended December 31, 2017. These Financial Statements present fairly the financial position, financial performance, and cash flows of the Company.

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

2. BASIS OF PREPARATION

a. Basis of measurement and statement of compliance

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

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

The Financial Statements were authorized for issue by Pembina's Board of Directors on February 22, 2018.

b. Functional and presentation currency

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

c. Use of estimates and judgments

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

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

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

Judgments

(i) Business combinations

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

(ii) Depreciation and amortization

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

(iii) Impairment

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

(iv) Assessment of joint control over joint arrangements

Jointly controlled arrangements which entitle the Company to the rights of the net assets to the arrangement are accounted for using the equity method. The determination of joint control requires judgment about the influence the Company has over the financial and operating decisions of the arrangement and the extent of the benefits it obtains based on the facts and circumstances of the arrangement during the reporting period. Joint control exists when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Ownership percentage alone may not be a determinant of joint control.

Estimates

(i) Business combinations

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

(ii) Provisions and contingencies

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

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

(iii) Deferred taxes

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

(iv) Depreciation and amortization

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

(v) Impairment tests

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

3. CHANGES IN ACCOUNTING POLICIES

The Company adopted IFRS 9 Financial Instruments (2014) effective January 1, 2017 in advance of the mandatory effective date of January 1, 2018. The new standard addresses the classification and measurement of financial assets and financial liabilities, impairment and hedge accounting.

IFRS 9 introduces new requirements for the measurement and classification of financial assets, replacing the previous multiple classification and measurement models. IFRS 9 requires the classification of financial assets in three main categories: fair value through profit or loss, fair value through other comprehensive income, and amortized cost. All of the Company's financial assets have been reclassified from loans and receivables at amortized cost to financial assets at amortized cost. There was no change in the carrying value of the Company's financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the fair value of the identifiable assets acquired

and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in earnings.

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

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

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

ii) Subsidiaries

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

iii) Investments in associates

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

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

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

iv) Joint arrangements

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

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

Joint ventures are accounted for using the equity method of accounting and are initially recognized at cost, or fair value if acquired as part of a business combination. Joint ventures are adjusted thereafter for the post-acquisition change in the Company's share of the equity accounted investment's net assets. The Company's consolidated financial statements include its share of the equity accounted investment's profit or loss and other comprehensive income, until the date that joint control ceases. Distributions from Investments in Equity Accounted Investees are recognized when received.

Acquisition of an incremental ownership in a joint arrangement where the Company maintains joint control is recorded at cost or fair value if acquired as part of a business combination. Where the Company has a partial disposal, including a deemed disposal, of a joint arrangement and maintains joint control, the resulting gains or losses are recorded in earnings at the time of disposal.

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

v) Transactions eliminated on consolidation

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

vi) Foreign currency

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

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

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

b. Cash and cash equivalents

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

c. Trade and other receivables

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

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

d. Inventories

Inventories are measured at the lower of cost and net realizable value and consist primarily of crude oil, NGL and spare parts. 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, and transportation. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling costs. All changes in the value of the inventories are reflected in inventories and cost of sales.

e. Financial instruments

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

i) Non-derivative financial assets

The Company initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets are recognized 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. On derecognition, the difference between the carrying amount of the financial asset and the consideration received is recognized in earnings.

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

Financial assets at amortized cost

A financial asset is classified in this category if the asset is held within a business model whose objective is to collect contractual cash flows and on specified dates that are solely payments of principal and interest. At initial recognition, financial assets at amortized costs are recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are recorded at amortized cost using the effective interest method less any impairment losses.

Financial assets at fair value through other comprehensive income

A financial asset is classified in this category if the asset is held within a business model whose objective is met by both collecting contractual cash flows and selling financial assets. The Company did not have any financial assets classified as fair value through other comprehensive income during the years covered in these financial statements.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is not classified as a financial asset at amortized cost or a financial asset at fair value through other comprehensive income, or it is an equity instrument designated as such on initial recognition. The Company did not have any non-derivative financial assets classified as fair value through profit or loss during the years covered in these financial statements.

ii) Non-derivative financial liabilities

The Company initially recognizes financial liabilities 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. On derecognition, the difference between the carrying value of the liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in earnings.

The Company records a modification or exchange of an existing liability as a derecognition of the financial liability if the terms are substantially different, resulting in a difference of more than 10 percent when comparing the present value of the remaining cash flows of the existing liability to the present value of the discounted cash flow under the new terms using the original effective interest rate.

If a modification to an existing liability causes a revision to the estimated payments of the liability but is not treated as a derecognition, the Company adjusts the gross carrying amount of the liability to the present value of the estimated contractual cash flows using the instrument's original effective interest rate, with the difference recorded in earnings.

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

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

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

iii) Common share capital

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

iv) Preferred share capital

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

v) Compound financial instruments

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

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

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

vi) Derivative financial instruments

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

f. Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured initially at cost, unless they are acquired as part of a business combination in which case they are initially measured at fair value. Thereafter, property, plant and equipment are recorded net of accumulated depreciation and accumulated impairment losses.

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

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

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

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

ii) Subsequent costs

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

iii) Depreciation

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

Depreciation is recognized in earnings on a straight line or declining balance basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

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

g. Intangible assets

i) Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

In respect of investments in equity accounted investees, 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 investment in equity accounted investee.

ii) Other intangible assets

Other intangible assets acquired individually by the Company are initially recognized and measured at cost, unless they are acquired as part of a business combination in which case they are initially measured at fair value. Thereafter, intangible assets with finite useful lives are recorded net of accumulated amortization and accumulated impairment losses.

iii) Subsequent expenditures

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

iv) Amortization

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

Amortization is recognized in earnings over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

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

h. Leased assets

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

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

i. Lease payments

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

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

i) Determining whether an arrangement contains a lease

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

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

j. Impairment

i) Non-derivative financial assets

Impairment of financial assets carried at amortized cost is assessed using the lifetime expected credit loss of the financial asset at initial recognition and throughout the life of the financial asset.

The Company uses a loss allowance matrix determine the impairment loss allowance for trade receivables. In determining the loss allowance matrix, 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.

Impairment losses are recognized in earnings and reflected as a reduction in the related receivable.

ii) Non-financial assets

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

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated annually in connection with the annual goodwill impairment test. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

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

internal purposes. Goodwill acquired in a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

Goodwill that forms part of the carrying amount of an investment in equity accounted investee is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment is tested for impairment as a single asset when there is objective evidence that the equity accounted investee may be impaired, unless the equity accounted investee does not generate cash flows that are largely independent of those from other assets of the entity in which case it is combined in a CGU with the related assets.

k. Employee benefits

i) Defined contribution plans

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

ii) Defined benefit pension plans

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

corporate bonds on the measurement date with cash flows that match the timing and amount of expected benefits.

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

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

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

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

iii) Short-term employee benefits

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

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

iv) Share-based payment transactions

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

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

I. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the

obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are remeasured at each reporting date based on the best estimate of the settlement amount. The unwinding of the discount rate is recognized as accretion in finance costs.

i) Decommissioning obligation

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

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

m. Revenue

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

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

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

n. Finance income and finance costs

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

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

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

o. Income tax

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

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

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

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

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

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

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

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

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

p. Earnings per common share

The Company presents basic and diluted earnings per common share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. To calculate earnings attributable to common

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

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

q. Segment reporting

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

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

r. New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning after January 1, 2017. These standards have not been applied in preparing these Financial Statements. Those which may be relevant to Pembina are described below:

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15 Revenue from contracts with customers, which supersedes existing revenue guidance, effective for periods beginning on or after January 1, 2018. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model outlines a five step analysis to assess contracts which involves identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to the performance obligations and recognizing revenue when or as the entity satisfies a performance obligation. Detailed guidance is also provided on a number of areas for which there was no previous guidance, including contract costs and contract modifications. In April 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15, and provides additional guidance on the five step analysis and transition.

The Company is on track to adopt IFRS 15 and the clarifications on the January 1, 2018 effective date. On transition, the standard permits either a full retrospective approach with restatement of all prior periods presented or a modified retrospective approach where the cumulative effect of initially applying the new standard is recognized as

an adjustment to opening retained earnings in the period of adoption. The Company has tentatively decided to adopt IFRS 15 using the full retrospective approach.

The Company has completed a detailed implementation plan, identified revenue streams and major contract types. Within each identified revenue stream, the Company has substantively reviewed and analyzed the revenue contracts in accordance with the five steps. The Company has also assessed the impact of the new standard on its systems and processes.

Based on the assessments completed to date, the Company has determined that the application of the new standard will result in a change to the timing and pattern of revenue recognition, specifically with respect to certain long term Take or Pay ("ToP") revenue contracts with make-up rights in our Conventional Pipelines and Gas Services businesses. The change in timing of revenue recognition for ToP revenue contracts will be a result of revenues being recognized based on the volumes flowed or processed rather than when the service capacity is provided for long term ToP contracts with make-up rights. Under long term ToP contracts, customers are committed to meet minimum volume or revenue commitments. Make-up rights arise when a customer does not meet its minimum ToP volume or revenue commitment in a certain period, but is contractually permitted to use future volumes or revenues to meet past ToP commitments. These make-up rights are subject to expiry and have varying conditions associated with them. Depending on the specific conditions and terms of the make-up rights, revenue recognition may be deferred early in a contract year when certain make-up rights are outstanding and recognized later in the contract year once these make-up rights are used, expire, or it is determined to be remote that a customer will use them. While this change is not expected to have a material impact on annual revenue, it is expected to result in a change in timing for quarterly revenue recognition (i.e. potentially lower revenue in the first and second quarters with higher revenue in the third and fourth quarters). There will be no impact on the timing of cash flow.

In addition, IFRS 15 will result in significant changes to disclosures based on the additional requirements outlined in the standard. These disclosures include the identification of significant judgments that have been made in applying the standard, information on changes to contract assets and liabilities, and details regarding how the Company recognizes revenue including performance obligations identified, determination of transaction price, and how the transaction price has been allocated to performance obligations. IFRS 15 also requires the disclosure of the amount of the transaction price that has been allocated to remaining unsatisfied performance obligations. This disclosure will primarily impact long-term contracts with ToP contract terms.

The Company has determined that there will be no material impact on existing systems on implementation of IFRS 15, however, new processes and controls are being designed and will be implemented as needed with respect to revenue recognition for impacted ToP contracts and to meet disclosure requirements.

IFRS 16 Leases

IFRS 16 *Leases* is effective for annual periods beginning on or after January 1, 2019. The new standard results in substantially all lessee leases being recorded on the statement of financial position.

The Company intends to adopt IFRS 16 for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact that the standard will have on its results of operations and financial position.

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or

disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination or transferred from a customer is based on market values when available, income approach 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 by an active market value or using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

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

iii) Derivatives

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

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

iv) Non-derivative financial assets and liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of estimated 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. For other financial liabilities where market rates are not readily available, a risk adjusted market rate is used which incorporates the nature of the instrument as well as the risk associated with the underlying cash payments.

v) Share-based compensation transactions

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

The fair value of the long-term share unit award incentive plan and associated distribution units are measured based on the volume-weighted average price for 20 days ending at the reporting date of the Company's shares.

vi) Finance lease assets

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

6. ACQUISITION

On October 2, 2017, Pembina acquired all the issued and outstanding shares of Veresen Inc. ("Veresen") by way of a plan of arrangement (the "Arrangement") for total consideration of \$6.4 billion comprised of \$1.522 billion in cash and 99.466 million common shares valued at \$4.356 billion and series 15, 17 and 19 preferred shares valued at \$522 million. In accordance with the Arrangement, Veresen has been amalgamated with Pembina and the outstanding Veresen preferred shares have been exchanged for Pembina preferred shares with the same terms and conditions.

Veresen owns and operates energy infrastructure assets across North America. Veresen is engaged in two principal businesses; a pipeline transportation business comprised of interests in the Alliance Pipeline, the Ruby Pipeline and the Alberta Ethane Gathering System, and a midstream business which includes a partnership interest in Veresen Midstream Limited Partnership and an ownership interest in Aux Sable, which owns a natural gas liquids (NGL) processing and extraction facility and other natural gas and NGL processing energy infrastructure. Veresen is also developing a LNG marine terminal and a connector pipeline.

The acquisition has been accounted for as a business combination using the acquisition method where the acquired tangible and intangible assets and assumed liabilities are recorded at their estimated fair values at the date of acquisition. The purchase price equation, subject to finalization, is based on assessed fair values and is as follows:

<i>(\$ millions)</i>	October 2, 2017
Purchase Price Consideration	
Common shares	4,356
Cash	1,522
Preferred shares	522
	6,400
Current assets	303
Investments in equity accounted investees	6,115
Property, plant and equipment	612
Intangibles and other long term assets	175
Goodwill	1,774
Current liabilities	(192)
Long term debt	(993)
Deferred tax liabilities	(1,203)
Decommissioning provision	(10)
Other long term liabilities	(121)
Non-controlling interest	(60)
	6,400

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 Veresen. Upon closing of the Acquisition, Pembina repaid Veresen's revolving credit facility of \$152 million. The

recognition of goodwill is not expected to be deductible for tax purposes. The Company has recognized \$25 million in acquisition-related expenses. All acquisition-related expenses have been expensed as incurred and are included in other expenses in the Statement of Earnings and Comprehensive Income.

Revenue generated by the Veresen business for the period from the Acquisition date of October 2, 2017 to December 31, 2017 was \$15 million. Net earnings for the same period were \$111 million. If the acquisition had occurred on January 1, 2017, management estimates that consolidated revenue would have increased an additional \$44 million and consolidated gross profit for the year would have increased an additional \$247 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2017.

The accounting for the acquisition will be further revised as the Company finalizes interpretations of contracts, long term liabilities and commitments outstanding on the date of acquisition.

7. TRADE RECEIVABLES AND OTHER

As at December 31 (\$ millions)	2017	2016
Trade receivables from customers	178	162
Other receivables	335	274
Prepayments	17	16
Allowance for doubtful accounts	(1)	(1)
Total trade receivables and other	529	451

8. PROPERTY, PLANT AND EQUIPMENT

<i>(\$ millions)</i>	Land and Land Rights	Pipelines	Facilities and Equipment	Other	Assets Under Construction	Total
Cost						
Balance at December 31, 2015	149	3,882	4,076	900	1,721	10,728
Additions and Transfers	69	211	1,116	168	244	1,808
Acquisition		100	391	20	11	522
Change in decommissioning provision		61	(31)			30
Disposals and other		(1)	(38)	1	(11)	(49)
Balance at December 31, 2016	218	4,253	5,514	1,089	1,965	13,039
Additions and transfers	70	1,895	1,230	133	(1,428)	1,900
Acquisition (Note 6)	41	448			123	612
Change in decommissioning provision		63	(21)			42
Disposals and other		(9)	(8)	1	(1)	(17)
Balance at December 31, 2017	329	6,650	6,715	1,223	659	15,576
Depreciation						
Balance at December 31, 2015	6	928	420	120		1,474
Depreciation	1	41	160	45		247
Disposals and other		(3)	(5)	(5)		(13)
Balance at December 31, 2016	7	966	575	160		1,708
Depreciation	2	136	148	48		334
Disposals and other		(6)	(2)	(4)		(12)
Balance at December 31, 2017	9	1,096	721	204		2,030
Carrying amounts						
Balance at December 31, 2016	211	3,287	4,939	929	1,965	11,331
Balance at December 31, 2017	320	5,554	5,994	1,019	659	13,546

Property, plant and equipment under construction

Costs of assets under construction at December 31, 2017 totaled \$659 million (2016: \$1,965 million) including capitalized borrowing costs.

For the year ended December 31, 2017, included in additions and transfers are capitalized borrowing costs related to the construction of new pipelines or facilities amounting to \$63 million (2016: \$72 million), with capitalization rates ranging from 3.87 percent to 4.39 percent (2016: 4.29 percent to 4.59 percent).

Depreciation

Pipeline assets are depreciated using the straight line method over one to 75 years with the majority of assets depreciated over 40 years. Facilities and equipment are depreciated using the straight line method over one to 75 years with the majority of assets depreciated over 40 years. Other assets are depreciated using the straight line method over one to 40 years with the majority of assets depreciated over 40 years. These rates are established to depreciate remaining net book value over the shorter of their useful lives or economic lives.

Commitments

At December 31, 2017, the Company had contractual construction commitments for property, plant and equipment of \$1,340 million (December 31, 2016: \$2,196 million), excluding significant projects awaiting regulatory approval.

9. INTANGIBLE ASSETS AND GOODWILL

(\$ millions)	Intangible Assets				Total Goodwill & Intangible Assets	
	Goodwill	Purchase and Sale Contracts and Other	Customer Relationships	Purchase Option		
Cost						
Balance at December 31, 2015	2,097	201	440	277	918	3,015
Acquisition			49		49	49
Additions and other		11	(1)		10	10
Balance at December 31, 2016	2,097	212	488	277	977	3,074
Acquisition (Note 6)	1,774		151		151	1,925
Additions and other		4	(1)		3	3
Balance at December 31, 2017	3,871	216	638	277	1,131	5,002
Amortization						
Balance at December 31, 2015		110	83		193	193
Amortization		17	30		47	47
Balance at December 31, 2016		127	113		240	240
Amortization		18	30		48	48
Balance at December 31, 2017		145	143		288	288
Carrying amounts						
Balance at December 31, 2016	2,097	85	375	277	737	2,834
Balance at December 31, 2017	3,871	71	495	277	843	4,714

Intangible assets with a finite useful life are amortized using the straight line method over 2 to 60 years. The purchase option attributable to the Midstream operating segment of \$277 million to acquire property, plant and equipment is not being amortized because it is not exercisable until 2018.

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

December 31 (\$ millions)	2017			2016		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Conventional Pipelines	453	175	628	453	188	641
Oil Sands & Heavy Oil	28	6	34	28	6	34
Gas Services	176	62	238	176	66	242
Midstream	1,440	433	1,873	1,440	459	1,899
Veresen	1,774	147	1,921			
Corporate		20	20		18	18
	3,871	843	4,714	2,097	737	2,834

Goodwill Impairment Testing

For the purpose of impairment testing, goodwill is allocated to the Company's operating segments which represents the lowest level within the Company at which the goodwill is monitored for management purposes. During the fourth quarter, impairment testing for goodwill was performed as at October 1, 2017, other than in respect of goodwill acquired in the Acquisition (Note 6) on October 2, 2017 given its recent proximity to our annual testing date. The recoverable amounts were based on their value in use and were determined to be higher than their carrying amounts.

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

- Cash flows are projected based on past experience, actual operating results and four years (2016: four years) of the business plan approved by management;
- Long-term growth: cash flows for periods up to 75 years (2016: 75 years) were extrapolated using a constant medium-term inflation rate, except where contracted, long-term cash flows indicated that no inflation should be applied or a specific reduction in cash flows was more appropriate; and
- Pre-tax discount rates were applied in determining the recoverable amount of operating segments. Discount rates were estimated based on past experience, the risk free rate and average cost of debt, targeted debt to equity ratio, in addition to estimates of the specific operating segment's equity risk premium, size premium, small capitalization premium, projection risk, betas and tax rate.

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

2017 (percent)	Operating Segments			
	Conventional Pipelines	Oil Sands & Heavy Oil	Gas Services	Midstream
Pre-tax discount rate	7.68	7.81	7.17	8.20
Adjusted inflation rate	1.48	0.81	1.25	1.80
Incremental increase in discount rate that would result in carrying value equal to recoverable amount				
Increase in pre-tax discount rate	8.39	2.09	3.94	2.30

10. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

(\$ millions)	Ownership Interest		Share of Profit from Investments in Equity Accounted Investees		Investments in Equity Accounted Investees	
	At December 31		Year ended December 31		At December 31	
	December 31, 2017	December 31, 2016	2017	2016	2017	2016
Alliance ⁽¹⁾	50%		40		2,776	
Aux Sable ⁽¹⁾	42.7% - 50%		22		449	
Ruby Pipeline ⁽¹⁾⁽³⁾	50% ⁽²⁾		29		1,516	
Veresen Midstream ⁽¹⁾	46.3%		22		1,365	
Other	50% - 75%	50%	3	1	123	134
			116	1	6,229	134

⁽¹⁾ On October 2, 2017 Pembina acquired Investments in Equity Accounted Investees through the acquisition of Veresen Inc. Refer to Note 6 Acquisition, for further details.

⁽²⁾ Ownership interest in Ruby based presented as a 50 percent proportionate share with benefit of preferred distribution structure.

⁽³⁾ Share of profit of Investments in Equity Accounted Investees for Ruby is equal to preferred interest distribution.

Investments in Equity Accounted Investees include the unamortized excess of the purchase price over the underlying net book value of the investee's assets and liabilities at the purchase date, which is comprised of \$90 million (2016 - \$65 million) Goodwill, \$3,059 million (2016 - \$22 million) in property, plant and equipment and intangibles and \$87 million in long-term debt (2016 -nil).

Contributions made to Investments in Equity Accounted Investees for the year ended December 31, 2017 were \$7 million (2016 - \$2 million) and are included in Investing activities in the Consolidated Statement of Cash Flows.

Summarized combined financial information of the Company's interest in unconsolidated Investments in Equity Accounted Investees is as follows:

(\$ millions)	Year ended December 31	
	2017	2016
Net Income		
Revenue	281	23
Cost of sales	(53)	(2)
General and administrative expense	(23)	(4)
Depreciation and amortization	(83)	(15)
Finance costs and other	(6)	(1)
Net Income	116	1

(\$ millions)	As at December 31	
	2017	2016
Balance Sheet		
Current assets	363	2
Property, plant and equipment ⁽¹⁾	7,287	67
Intangible asset ⁽²⁾	1,361	22
Goodwill	90	65
Other non-current assets	44	
Current liabilities	455	5
Long-term debt	2,303	21
Other long-term liabilities	412	24

⁽¹⁾ At December 31, 2017, property, plant and equipment is comprised of 39 percent Alliance, 27 percent Ruby, 26 percent Veresen Midstream, 7 percent Aux Sable and 1 percent Other.

⁽²⁾ At December 31, 2017, intangible assets is comprised of 53 percent Alliance and 45 percent Veresen Midstream, 1 percent Aux Sable and 1 percent Other.

Commitments

The Company has a contractual commitment to advance \$127 million (US\$102 million) to Ruby Pipeline Holding Company L.L.C. by March 31, 2018.

11. INCOME TAXES

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

<i>(\$ millions)</i>	Balance at December 31, 2016	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2017
Deferred income tax assets							
Derivative financial instruments	20	(9)					11
Employee benefits	8		(1)				7
Share-based payments	12	9					21
Provisions	133	12		8			153
Benefit of loss carryforwards	90	(57)		137		10	180
Other deductible temporary	41	12		11	(3)	(5)	56
Deferred income tax liabilities							
Property, plant and equipment	(1,193)	(243)		75			(1,361)
Intangible assets	(150)	(6)		(42)			(198)
Investments in equity accounted investees	(6)	190		(1,357)			(1,173)
Taxable limited partnership income deferral	(25)	4		(35)			(56)
Other taxable temporary differences	(10)	(6)					(16)
Total deferred tax liabilities	(1,080)	(94)	(1)	(1,203)	(3)	5	(2,376)

(\$ millions)	Balance at December 31, 2015	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2016
Deferred income tax assets							
Derivative financial instruments	5	15					20
Employee benefits	1	5	2				8
Share-based payments	9	3					12
Provisions	124	9					133
Benefit of loss carryforwards	63	27					90
Other deductible temporary differences	7	35			2	(3)	41
Deferred income tax liabilities							
Property, plant and equipment	(929)	(259)		(5)			(1,193)
Intangible assets	(170)	20					(150)
Investments in equity accounted investees	12	(18)					(6)
Taxable limited partnership income deferral	(49)	24					(25)
Other taxable temporary differences	(10)						(10)
Total deferred tax liabilities	(937)	(139)	2	(5)	2	(3)	(1,080)

The Company's consolidated statutory tax rate for the year ended December 31, 2017 was 27 percent (2016: 27 percent).

Reconciliation of effective tax rate

Year Ended December 31 (\$ millions, except as noted)	2017	2016
Earnings before income tax	1,033	654
Statutory tax rate (percent)	27	27
Income tax at statutory rate	279	176
Tax rate changes on deferred income tax balances	1	(2)
Changes in estimate and other	16	1
US Tax Reform	(166)	
Permanent items	12	14
Income tax expense	142	189

The Company's estimate of impact of US tax reform may be adjusted in the future based on anticipated regulations or guidance from the US Treasury and the Internal Revenue Service.

Income tax expense

Year Ended December 31 (\$ millions)	2017	2016
Current tax expense	48	50
Deferred tax expense		
Origination and reversal of temporary differences	286	168
Tax rate changes on deferred tax balances	(191)	(2)
(Increase) / Decrease in tax loss carry forward	(1)	(27)
Total deferred tax expense	94	139
Total income tax expense	142	189

Deferred tax items recovered directly in equity

Year Ended December 31 (\$ millions)	2017	2016
Share issue costs	(3)	2
Other comprehensive income/ (loss)	(1)	2
Deferred tax items recovered directly in equity	(4)	4

The Company has temporary differences associated with its investments in subsidiaries and interests in joint arrangements. At December 31, 2017, the Company has not recorded a deferred tax asset or liability for these temporary differences (December 31, 2016: nil) as the Company controls the timing of the reversal and it is not probable that the temporary differences will reverse in the foreseeable future.

At December 31, 2017, the Company had US\$261 million (December 31, 2016: US\$68 million) of U.S. tax losses that will expire after 2030, and \$394 million (December 31, 2016: \$205 million) of Canadian tax losses that will expire after 2035. The Company has determined that it is probable that future taxable profits will be sufficient to utilize these losses.

12. TRADE PAYABLES AND ACCRUED LIABILITIES

As at December 31 (\$ millions)	2017	2016
Trade payables	465	475
Other payables & accrued liabilities	248	163
Total current trade and accrued liabilities	713	638

13. LOANS AND BORROWINGS

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

Carrying value, terms and conditions, and debt maturity schedule

(\$ millions)	Authorized at December 31, 2017	Nominal interest rate	Year of maturity	Carrying value	
				December 31, 2017	December 31, 2016
Operating facility ⁽¹⁾	20	prime + 0.45 or BA ⁽²⁾ / LIBOR + 1.45	2018 ⁽³⁾		
Revolving unsecured credit facility ⁽¹⁾	2,500	prime + 0.45 or BA ⁽²⁾ / LIBOR + 1.45	2020	1,778	353
Senior unsecured notes – series C	200	5.58	2021	199	199
Senior unsecured notes – series D	267	5.91	2019	266	266
Alberta Ethane Gathering System LP senior notes	73	5.565	2020	77	
Senior unsecured medium-term notes series 1	250	4.89	2021	249	249
Senior unsecured medium-term notes series 2	450	3.77	2022	449	449
Senior unsecured medium-term notes series 3	450	4.75	2043	446	446
Senior unsecured medium-term notes series 4	600	4.81	2044	596	596
Senior unsecured medium-term notes series 5	450	3.54	2025	448	448
Senior unsecured medium-term notes series 6	500	4.24	2027	498	497
Senior unsecured medium-term notes series 7	500	3.71	2026	497	497
Senior unsecured medium-term notes series 8	650	2.99	2024	645	
Senior unsecured medium-term notes series 9	550	4.74	2047	541	
Senior unsecured medium-term notes 1A	150	4.00	2018	152	
Senior unsecured medium-term notes 3A	50	5.05	2022	52	
Senior unsecured medium-term notes 4A	200	3.06	2019	207	
Senior unsecured medium-term notes 5A	350	3.43	2021	354	
Finance lease liabilities and other				9	8
Total interest bearing liabilities	8,210			7,463	4,008
Less current portion				(163)	(6)
Total non-current				7,300	4,002

⁽¹⁾ The nominal interest rate is based on the Company's credit rating at December 31, 2017.

⁽²⁾ Bankers' Acceptance.

⁽³⁾ Operating facility expected to be renewed on an annual basis.

On January 20, 2017, Pembina closed an offering of \$300 million of senior unsecured Series 8 medium-term notes (the "Series 8 Notes"). The Series 8 Notes have a fixed coupon of 2.99 percent per annum, paid semi-annually, and mature on January 22, 2024. Simultaneously, Pembina closed an offering of \$300 million of senior unsecured Series 9 medium-term notes (the "Series 9 Notes"). The Series 9 Notes have a fixed coupon of 4.74 percent per annum, paid semi-annually, and mature on January 21, 2047.

On August 16, 2017, Pembina closed an offering of \$600 million of senior unsecured medium-term notes. The offering was conducted in two tranches consisting of \$350 million principal amount through the re-opening of Pembina's Series 8 Notes and \$250 million through the re-opening of Pembina's Series 9 Notes.

In conjunction with the closing of the Acquisition on October 2, 2017, Pembina and Veresen undertook an amalgamation under the *Alberta Business Corporations Act*. As a result, Pembina assumed all obligations related to the senior unsecured medium-term notes 1A, 3A, 4A and 5A, and, indirectly, the Alberta Ethane Gathering System L.P. senior notes.

All facilities are governed by specific debt covenants which Pembina was in compliance with at December 31, 2017 (December 31, 2016: in compliance).

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

14. CONVERTIBLE DEBENTURES

<i>(\$ millions, except as noted)</i>	Series F – 5.75%
Conversion price (<i>dollars per share</i>)	\$ 29.53
Interest payable semi-annually in arrears on:	June 30 and December 31
Maturity Date	December 31, 2018
Balance at December 31, 2015	143
Conversions and redemptions	(2)
Unwinding of discount rate	1
Deferred financing fee (net of amortization)	1
Balance at December 31, 2016	143
Conversions	(52)
Unwinding of discount rate	1
Deferred financing fee (net of amortization)	1
Balance at December 31, 2017	93

The Series F debentures may be converted at the option of the holder at a conversion price of \$29.53 per common share at any time prior to maturity and may be in whole or in part at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest. Any accrued unpaid interest will be paid in cash.

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

15. DECOMMISSIONING PROVISION

<i>(\$ millions)</i>	2017	2016
Balance as at January 1	496	462
Unwinding of discount rate	12	10
Change in rates	43	(73)
Acquisition	10	
Additions	33	55
Change in estimates and other	(43)	42
Total	551	496
Less current portion (included in accrued liabilities)	(5)	(8)
Balance as at December 31	546	488

The decommissioning provision reflects the discounted cash flows expected to be incurred to decommission the Company's pipeline systems, gas processing and fractionation plants, and storage and terminalling hubs. The estimated economic lives of assets covered by the decommissioning provision range from 1 to 75 years, with the majority of assets having an economic life of 40 years. The estimated economic lives of the underlying assets are used to determine the undiscounted cash flows at the time of decommissioning and are also reflective of the expected timing of economic outflows relating to the provision.

The Company applied a 1.8 percent inflation rate per annum (December 31, 2016: 1.8 percent) and a risk-free rate of 2.3 percent (December 31, 2016: 2.3 percent) to calculate the present value of the decommissioning provision. The change in rates of \$43 million is the result of the recalculation of the Veresen decommissioning provision using the above risk free rate compared to the valuation of the provision at acquisition using a risk adjusted rate. Changes in the measurement of the decommissioning provision are added to, or deducted from, the cost of the related asset in property, plant and equipment. When a re-measurement reduction of the decommissioning provision is in excess of the carrying amount of the related asset, the amount is credited to depreciation expense. For the year ended December 31, 2017, \$4 million was credited to depreciation expense (December 31, 2016 - nil).

16. SHARE CAPITAL

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

Pembina has adopted a shareholder rights plan ("Plan") as a mechanism designed to assist the board in ensuring the fair and equal treatment of all shareholders in the face of an actual or contemplated unsolicited bid to take control of the Company. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it will be difficult for the board to prepare an adequate response. Such offers may result in shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in Pembina. The Plan discourages the making of any such offers by creating the potential of significant dilution to any offeror who does so. The Plan was reconfirmed at Pembina's 2016 meeting of Shareholders and must be reconfirmed at every third annual meeting thereafter. Accordingly, the Plan, with such amendments as the Board of Directors determines to be necessary or advisable, and as may otherwise be required by law, is expected to be placed before Shareholders for approval at Pembina's 2019 annual meeting. A copy of the agreement relating to the current Plan has been filed on Pembina's SEDAR and EDGAR profiles.

Common Share Capital

<i>(\$ millions, except as noted)</i>	Number of Common Shares (millions)	Common Share Capital
Balance at December 31, 2015	373	7,991
Issued, net of issue costs	10	335
Dividend reinvestment plan	13	449
Debenture conversions		2
Share-based payment transactions	1	31
Balance at December 31, 2016	397	8,808
Issued on Acquisition, net of issue costs	99	4,356
Dividend reinvestment plan	4	148
Debenture conversions	2	73
Share-based payment transactions	1	62
Balance at December 31, 2017	503	13,447

Preferred Share Capital

<i>(\$ millions, except as noted)</i>	Number of Preferred Shares (millions)	Preferred Share Capital
Balance at December 31, 2015	45	1,100
Class A, Series 11 Preferred shares issued, net of issue costs	7	166
Class A, Series 13 Preferred shares issued, net of issue costs	10	243
Balance at December 31, 2016	62	1,509
Class A, Series 15 Preferred shares issued, net of issue costs	8	178
Class A, Series 17 Preferred shares issued, net of issue costs	6	141
Class A, Series 19 Preferred shares issued, net of issue costs	8	203
Class A, Series 21 Preferred shares issued, net of issue costs	16	393
Balance at December 31, 2017	100	2,424

On December 7, 2017, Pembina issued 16 million cumulative redeemable minimum rate reset class A Series 21 Preferred Shares for aggregate gross proceeds of \$400 million. The holders of Series 21 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of \$1.225 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on March 1, 2023 and every fifth year thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 3.26 percent, provided that, in any event, such rate shall not be less than 4.90 percent. The Series 21 Preferred Shares are redeemable by the Company at its option on March 1, 2023 and every fifth year thereafter at a price of \$25.00 per share plus accrued and unpaid dividends.

Holders of the Series 21 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred Shares, Series 22 ("Series 22 Preferred Shares"), subject to certain conditions, on March 1, 2023 and every fifth year thereafter. Holders of Series 22 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day government of Canada bond yield plus 3.26 percent, if, as and when declared by the Board of Directors.

On October 2, 2017, in connection with the Acquisition, the outstanding preferred shares of Veresen have been exchanged for Pembina Class A Series 15, 17 and 19 Preferred Shares with the same terms and conditions as the shares previously issued by Veresen. Dividends on the Series 15, 17 and 19 Preferred Shares will continue to be

paid on the last business day of March, June, September and December in each year, if, as and when declared by the Board of Directors.

On April 27, 2016, Pembina issued 10 million cumulative redeemable minimum rate reset class A Series 13 Preferred Shares for aggregate gross proceeds of \$250 million. The holders of Series 13 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of \$1.4375 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on June 1, 2021 and every fifth year thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 4.96 percent, provided that, in any event, such rate shall not be less than 5.75 percent. The Series 13 Preferred Shares are redeemable by the Company at its option on June 1, 2021 and every fifth year thereafter at a price of \$25.00 per share plus accrued and unpaid dividends.

Holders of the Series 13 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred Shares, Series 14 ("Series 14 Preferred Shares"), subject to certain conditions, on June 1, 2021 and every fifth year thereafter. Holders of Series 14 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day government of Canada bond yield plus 4.96 percent, if, as and when declared by the Board of Directors.

On January 15, 2016, Pembina issued 6.8 million cumulative redeemable minimum rate reset class A Series 11 Preferred Shares for aggregate gross proceeds of \$170 million. The holders of Series 11 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of \$1.4375 per share, if, as and when declared by the Board of Directors. The dividend rate will reset on March 1, 2021 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 5.00 percent, provided that, in any event, such rate shall not be less than 5.75 percent. The Series 11 Preferred Shares are redeemable by the Company at its option on March 1, 2021 and every fifth year thereafter at a price of \$25.00 per share plus accrued and unpaid dividends.

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

Dividends

The following dividends were declared by the Company:

Year Ended December 31 (\$ millions)	2017	2016
Common shares		
Common shares \$2.04000 per qualifying share (2016: \$1.89750)	873	737
Preferred shares		
\$1.062500 per qualifying Series 1 preferred share (2016: \$1.062500)	11	11
\$1.175000 per qualifying Series 3 preferred share (2016: \$1.175000)	7	7
\$1.250000 per qualifying Series 5 preferred share (2016: \$1.250000)	12	12
\$1.125000 per qualifying Series 7 preferred share (2016: \$1.125000)	11	11
\$1.187500 per qualifying Series 9 preferred share (2016: \$1.187500)	11	11
\$1.437500 per qualifying Series 11 preferred share (2016: \$1.259325)	10	8
\$1.437500 per qualifying Series 13 preferred share (2016: \$0.859575)	14	9
\$0.279000 per qualifying Series 15 preferred share (2016: nil)	2	
\$0.312500 per qualifying Series 17 preferred share (2016: nil)	2	
\$0.312500 per qualifying Series 19 preferred share (2016: nil)	3	
	83	69

Pembina's Board of Directors approved a 6.25 percent increase in its monthly common share dividend rate (from \$0.16 per common share to \$0.17 per common share), effective for the dividend paid on May 15, 2017. In connection with the Acquisition, Pembina increased its monthly dividend by an additional 5.88 percent to \$0.18 per common share, effective for the dividend paid on November 15, 2017.

On January 8, 2018, Pembina announced that its Board of Directors had declared a dividend of \$0.18 per qualifying common share (\$2.16 annually) in the total amount of \$91 million, payable on February 15, 2018 to shareholders of record on January 25, 2018. Pembina's Board of Directors also declared quarterly dividends for the Company's preferred shares, Series 1, 3, 5, 7, 9, 11, 13 and 21 in the total amount of \$24 million payable on March 1, 2018 to shareholders of record on February 1, 2018 and Series 15, 17, and 19 in the total amount of \$6 million payable on March 31, 2018 to shareholders of record on March 15, 2018.

Series	Dividend Amount
Series 1	\$ 0.265625
Series 3	\$ 0.293750
Series 5	\$ 0.312500
Series 7	\$ 0.281250
Series 9	\$ 0.296875
Series 11	\$ 0.359375
Series 13	\$ 0.359375
Series 15	\$ 0.279000
Series 17	\$ 0.312500
Series 19	\$ 0.312500
Series 21	\$ 0.281900

DRIP

Pembina suspended its Premium Dividend™¹ and Dividend Reinvestment Plan ("DRIP"), effective April 25, 2017. Accordingly, the March 2017 dividend was the last dividend with the ability to be reinvested through the DRIP. Shareholders who were enrolled in the program automatically received dividends in the form of cash. If Pembina elects to reinstate the DRIP in the future, shareholders that were enrolled in the DRIP at suspension and remained enrolled at reinstatement will automatically resume participation in the DRIP. Proceeds for 2017 were \$148 million compared to \$449 million in 2016.

17. DEFERRED REVENUE

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

The Company will adopt IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018. See discussion in note 4(r) for additional information.

18. PERSONNEL EXPENSES

Year Ended December 31 (\$ millions)	2017	2016
Salaries and wages	194	183
Share-based compensation expense (Note 23)	73	46
Short-term incentive plan	45	35
Pension plan expense	20	17
Health, savings plan and other benefits	18	18
	350	299

19. NET FINANCE COSTS

Year Ended December 31 (\$ millions)	2017	2016
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	162	91
Convertible debentures	9	11
Unwinding of discount rate	12	10
Gain in fair value of non-commodity-related derivative financial instruments	(8)	(3)
Loss on revaluation of conversion feature of convertible debentures	13	40
Foreign exchange (gains) losses and other	(3)	4
Net finance costs	185	153

Net interest paid of \$216 million (2016: \$163 million) includes interest paid during construction of \$63 million (2016: \$72 million).

20. OPERATING SEGMENTS

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

¹™ denotes trademark of Canaccord Genuity Corp.

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

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

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

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

Veresen consists of: tariff-based operations of pipelines and related facilities to deliver natural gas and NGL in Alberta, British Columbia and the United States; gas services which consists of natural gas gathering and processing facilities; and an interest in assets which include a NGL extraction facility near Chicago, Illinois and other natural gas and NGL processing facilities, logistics and distribution assets in the U.S. and Canada.

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

12 Months Ended December 31, 2017 (\$ millions)	Conventional Pipelines⁽¹⁾	Oil Sands & Heavy Oil	Gas Services	Midstream⁽²⁾⁽³⁾	Veresen	Corporate & Intersegment Eliminations	Total
External revenue:							
Pipeline transportation	780	207			15		1,002
Terminalling, storage and hub services				4,034			4,034
Gas services			372				372
Total external revenue	780	207	372	4,034	15		5,408
Inter-segment revenue:							
Pipeline transportation	104	3				(107)	
Gas services			6			(6)	
Total inter-segment revenue	104	3	6			(113)	
Total revenue⁽⁴⁾	884	210	378	4,034	15	(113)	5,408
Operating expenses	227	66	89	69	8	(9)	450
Cost of goods sold, including product purchases			13	3,262		(113)	3,162
Realized loss on commodity- related derivative financial instruments	1			93			94
Share of profit of investments in equity accounted investees					116		116
Depreciation and amortization included in operations	157	18	59	116	9		359
Unrealized gain on commodity-related derivative financial instruments	(1)			(22)			(23)
Gross profit	500	126	217	516	114	9	1,482
Depreciation included in general and administrative					1	22	23
Other general and administrative	14	5	11	27	5	151	213
Other (income) expense	(6)	(1)	1	11		23	28
Reportable segment results from operating activities	492	122	205	478	108	(187)	1,218
Net finance costs (income)	8	1	1	18	(3)	160	185
Reportable segment earnings (loss) before tax	484	121	204	460	111	(347)	1,033
Capital expenditures	1,150	15	243	395	24	12	1,839
Contributions to equity accounted investees				1	6		7
Acquisition					6,400		6,400

⁽¹⁾ Conventional Pipelines revenue includes \$22 million associated with U.S. pipeline sales.

⁽²⁾ NGL product and services, terminalling, storage and hub services revenue includes \$215 million associated with U.S. midstream sales.

⁽³⁾ Pembina aggregates its NGL and crude oil midstream activities based on shared economic risk characteristics.

⁽⁴⁾ No customer accounted for 10 percent or more of total revenue.

12 Months Ended December 31, 2016 (\$ millions)	Conventional Pipelines ⁽¹⁾	Oil Sands & Heavy Oil	Gas Services	Midstream ⁽²⁾⁽³⁾	Veresen	Corporate & Intersegment Eliminations	Total
External revenue:							
Pipeline transportation	606	199					805
Terminalling, storage and hub services				3,183			3,183
Gas services			277				277
Total external revenue	606	199	277	3,183			4,265
Inter-segment revenue:							
Pipeline transportation	113	3				(116)	
Gas services			6			(6)	
Total inter-segment revenue	113	3	6			(122)	
Total revenue⁽⁴⁾	719	202	283	3,183		(122)	4,265
Share of profit of investments in equity accounted investees				1			1
Operating expenses	222	62	76	69		(10)	419
Cost of goods sold, including product purchases			12	2,611		(122)	2,501
Realized loss on commodity- related derivative financial instruments	3			7			10
Depreciation and amortization included in operations	103	17	52	101			273
Unrealized (gain) loss on commodity-related derivative financial instruments	(2)			63			61
Gross profit	393	123	143	333		10	1,002
Depreciation included in general and administrative						20	20
Other general and administrative	10	5	8	24		128	175
Other (income) expense	(11)	1	1	8			(1)
Reportable segment results from operating activities	394	117	134	301		(138)	808
Net finance costs	5	1	2	8		137	153
Reportable segment earnings (loss) before tax	389	116	132	293		(275)	655
Capital expenditures	957	124	146	504		14	1,745
Contributions to equity accounted investees				2			2
Acquisition			566				566

⁽¹⁾ Conventional Pipelines revenue includes \$13 million associated with U.S. pipeline sales.

⁽²⁾ NGL product and services, terminalling, storage and hub services revenue includes \$139 million associated with U.S. midstream sales.

⁽³⁾ Pembina aggregates its NGL and crude oil midstream activities based on shared economic risk characteristics.

⁽⁴⁾ One customer accounted for 10 percent of total revenue.

21. EARNINGS PER COMMON SHARE

Basic earnings per common share

The calculation of basic earnings per common share at December 31, 2017 was based on the earnings attributable to common shareholders of \$805 million (2016: \$394 million) and a weighted average number of common shares outstanding of 426 million (2016: 388 million).

Diluted earnings per common share

The calculation of diluted earnings per common share at December 31, 2017 was based on earnings attributable to common shareholders of \$811 million (December 31, 2016: \$394 million), and weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 432 million (2016: 389 million).

Earnings attributable to common shareholders

Year Ended December 31 (<i>\$ millions</i>)	2017	2016
Earnings	891	466
Dividends on preferred shares	(83)	(69)
Cumulative dividends on preferred shares, not yet declared	(3)	(3)
Earnings attributable to common shareholders (basic)	805	394
Effect of after-tax interest on debentures to earnings	6	
Earnings attributable to common shareholders (diluted)	811	394

Weighted average number of common shares

(<i>In millions of shares, except as noted</i>)	2017	2016
Issued common shares at January 1	397	373
Effect of shares issued on Acquisition	25	8
Effect of conversion of convertible debentures	1	
Effect of shares issued under dividend reinvestment plan	3	7
Weighted average number of common shares at December 31 (basic)	426	388
Dilutive effect of debentures converted	4	
Dilutive effect of share options on issue	2	1
Weighted average number of common shares at December 31 (diluted)	432	389
Basic earnings per common share (dollars)	1.89	1.02
Diluted earnings per common share (dollars)	1.88	1.01

At December 31, 2016, the effect of the conversion of the convertible debentures was excluded from the diluted earnings per common share calculation as the impact was anti-dilutive. If the convertible debentures were included, an additional 5 million common shares would be added to the weighted average number of common shares and \$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.

22. PENSION PLAN

December 31 (\$ millions)	2017	2016
Registered defined benefit net obligation	10	16
Supplemental defined benefit net obligation	11	10
Other accrued benefit obligations	1	1
Net employee benefit obligations	22	27

The Company maintains a defined contribution plan and non-contributory defined benefit pension plans covering its employees. The Company contributes five to ten percent of an employee's earnings to the defined contribution plan until the employee's age plus years of service equals 50, at which time they become eligible for the defined benefit plans. The Company recognized \$7 million in expense for the defined contribution plan during the year (2016: \$6 million). The defined benefit plans include a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. The defined benefit plans are administered by a single pension fund that is legally separated from the Company. Benefits under the plans are based on the length of service and the annual average best three years of earnings during the last ten years of service of the employee. Benefits paid out of the plans are not indexed. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation was at December 31, 2016. The defined benefit plans expose the Company to actuarial risks such as longevity risk, interest rate risk, and market (investment) risk.

Defined benefit obligations

December 31 (\$ millions)	2017		2016	
	Registered Plan	Supplemental Plan	Registered Plan	Supplemental Plan
Present value of unfunded obligations		11		10
Present value of funded obligations	192		180	
Total present value of obligations	192	11	180	10
Fair value of plan assets	182		164	
Recognized liability for defined benefit obligations	(10)	(11)	(16)	(10)

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 \$16 million for the year ended December 31, 2017 (2016: \$15 million).

The Company has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements of the plans, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, no decrease in the defined benefit asset is necessary at December 31, 2017 (December 31, 2016: nil).

Registered defined benefit pension plan assets comprise

December 31 (<i>percentages</i>)	2017	2016
Equity securities	65%	61%
Debt	35%	38%
Other		1%
	100%	100%

Movement in the present value of the defined benefit pension obligation

<i>(\$ millions)</i>	2017		2016	
	Registered Plan	Supplemental Plan	Registered Plan	Supplemental Plan
Defined benefits obligations at January 1	180	10	160	8
Benefits paid by the plan	(13)		(8)	
Current service costs	14		11	
Interest expense	7		6	
Actuarial losses in other comprehensive income	4	1	11	2
Defined benefit obligations at December 31	192	11	180	10

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

<i>(\$ millions)</i>	2017	2016
Fair value of plan assets at January 1	164	146
Contributions paid into the plan	16	15
Benefits paid by the plan	(13)	(8)
Return on plan assets	8	5
Interest income	7	6
Fair value of registered plan assets at December 31	182	164

Expense recognition in earnings

Registered Plan		
Year Ended December 31 (<i>\$ millions</i>)	2017	2016
Current service costs	14	11
Interest on obligation	7	6
Expected return on plan assets	(7)	(6)
	14	11

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

Year Ended December 31 (<i>\$ millions</i>)	2017	2016
<i>Registered Plan</i>		
Operating expenses	7	5
General and administrative expense	7	6
	14	11

Expense recognized for the Supplemental Plan was less than one million for each of the years ended December 31, 2017 and 2016.

Actuarial gains and losses recognized in other comprehensive income

(\$ millions)	2017			2016		
	Registered Plan	Supplemental Plan	Total	Registered Plan	Supplemental Plan	Total
Balance at January 1	(25)	(1)	(26)	(20)	(1)	(21)
Remeasurements gain:						
Actuarial gain (loss) arising from						
Demographic assumptions				(1)		(1)
Financial assumptions	(4)		(4)	(5)		(5)
Experience adjustments	1		1	(3)		(3)
Return on plan assets excluding interest income	6		6	4		4
Recognized during the period after tax	3		3	(5)		(5)
Balance at December 31	(22)	(1)	(23)	(25)	(1)	(26)

Principal actuarial assumptions used:

	2017	2016
December 31 (weighted average percent)		
Discount rate	3.6%	3.9%
Future pension earning increases	4.0%	4.0%

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

December 31 (years)	2017	2016
Longevity at age 65 for current pensioners		
Males	21.7	21.6
Females	24.1	24.0
Longevity at age 65 for current member aged 45		
Males	22.8	22.7
Females	25.1	25.0

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 3.6 percent by 100 basis points at December 31, 2017 is considered reasonably possible in the next financial year but would not have a material impact on the obligation.

The Company expects to contribute \$17 million to the defined benefit plans in 2018.

23. SHARE-BASED PAYMENTS

At December 31, 2017, the Company has the following share-based payment arrangements:

Share option plan (equity settled)

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

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

In 2005, the Company established a long-term share unit award incentive plan. Under the share-based compensation plan, awards of restricted (RSU) and performance (PSU) share units are made to officers, non-

officers and directors. The plan results in participants receiving cash compensation based on the value of the underlying notional shares granted under the plan. Payments are based on a trading value of the Company's common shares plus notional dividends and performance of the Company.

In 2015, the Company also established a deferred share units (DSU) plan. Under the DSU plan, directors are required to take at least forty percent of total director compensation, excluding meeting fees, as DSUs. A DSU is a notional share that has the same value as one Pembina common share. Its value changes with our share price. DSUs do not have voting rights but they accrue dividends as additional DSUs, at the same rate as dividends paid on the Company's common shares. DSUs are paid out when a director retires from the board and are redeemed for cash using the weighted average of trading price of common shares on the TSX for the last five trading days before the redemption date, multiplied by the number of DSUs the director holds. As of January 1, 2018, directors no longer receive meeting fees.

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

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

Grant date share options granted to employees (thousands of options, except as noted)	Number of options	Contractual life of options
March 8, 2016	2,613	7
March 30, 2016	227	7
July 4, 2016	88	7
August 16, 2016	1,268	7
October 3, 2016	62	7
November 15, 2016	1,240	7
March 7, 2017	1,697	7
May 16, 2017	64	7
August 14, 2017	868	7
October 11, 2017	40	7
November 14, 2017	784	7
December 8, 2017	77	7

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

Long-term share unit award incentive plan⁽¹⁾

Grant date RSUs, PSUs and DSUs to Officers, Non-Officers ⁽²⁾ and Directors (thousands of units, except as noted)	PSUs ⁽³⁾	RSUs ⁽³⁾	DSUs	Total
January 1, 2016	365	372	49	786
January 1, 2017	307	303	32	642

⁽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.

⁽³⁾ Contractual life of 3 years.

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

Disclosure of share option plan

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

<i>(thousands of options, except as noted)</i>	Number of Options	Weighted Average Exercise Price (dollars)
Outstanding at December 31, 2015	10,006	\$40.98
Granted	5,498	\$36.41
Exercised	(577)	\$28.20
Forfeited	(509)	\$41.25
Expired	(108)	\$46.83
Outstanding at December 31, 2016	14,310	\$39.68
Granted	3,530	\$43.28
Exercised	(1,405)	\$33.03
Forfeited	(502)	\$40.58
Expired	(256)	\$47.15
Outstanding as at December 31, 2017	15,677	\$40.94

As of December 31, 2017, the following options are outstanding:

<i>(thousands of options, except as noted)</i> Exercise Price (dollars)	Number outstanding at December 31, 2017	Options Exercisable	Weighted average remaining life
\$25.28 – \$33.85	3,713	2,145	3.83
\$33.86 – \$40.48	3,011	1,224	5.33
\$40.49 – \$43.06	3,303	570	5.77
\$43.07 – \$45.15	2,490	2,309	4.08
\$45.16 – \$52.01	3,160	2,376	4.48
Total	15,677	8,624	4.70

The weighted average share price at the date of exercise for share options exercised in the year ended December 31, 2017 was \$43.49 (December 31, 2016: \$39.27).

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

Share options granted

Year Ended December 31 (dollars, except as noted)	2017	2016
Weighted average		
Fair value at grant date	4.49	3.71
Share price at grant date	43.13	36.47
Exercise price	43.28	36.41
Expected volatility (percent)	23.5	25.1
Expected option life (years)	3.67	3.67
Expected annual dividends per option	2.04	1.90
Expected forfeitures (percent)	6.1	6.7
Risk-free interest rate (based on government bonds) (percent)	1.2	0.7

Disclosure of long-term share unit award incentive plan

The long-term share unit award incentive plans was valued using the volume weighted average price for 20 days ending December 31, 2017 of \$44.94 (December 31, 2016: \$41.18). Actual payment may differ from amount valued based on market price and company performance.

Employee expenses

Year Ended December 31 (\$ millions)	2017	2016
Share option plan, equity settled	16	15
Long-term share unit award incentive plan	57	31
Share-based compensation expense	73	46
Total carrying amount of liabilities for cash settled arrangements	79	44
Total intrinsic value of liability for vested benefits	36	24

24. FINANCIAL INSTRUMENTS

Financial Risk Management

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

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

Counterparty credit risk

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

The Company manages counterparty credit risk through established credit management techniques, including conducting comprehensive financial and other assessments for all new counterparties and regular reviews of existing counterparties to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits and obtaining financial assurances where warranted. The Company utilizes various sources of financial, credit and business information in assessing the creditworthiness of a counterparty including external credit ratings, where available, and in other cases, detailed financial statement analysis in order to generate an internal credit rating based on quantitative and qualitative factors. The establishment of counterparty exposure limits is governed by a Board of Directors designated counterparty

exposure limit matrix which represents the maximum dollar amounts of counterparty exposure by debt rating that can be approved for a counterparty. The Company continues to closely monitor and reassess the creditworthiness of its counterparties, which has resulted in the Company reducing or mitigating its exposure to certain counterparties where it was deemed warranted and permitted under contractual terms.

Financial assurances may include guarantees, letters of credit and cash. Letters of credit totaling \$110 million (December 31, 2016: \$115 million) are held primarily in respect of customer trade receivables.

Typically, the Company has collected its trade receivables in full and at December 31, 2017, 96 percent were current (2016: 95 percent). Management defines current as outstanding accounts receivable under 30 days past due. The Company has a general lien and a continuing and first priority security interest in, and a secured charge on, all of a shipper's petroleum in its custody.

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

Past Due	2017	2016
31-60 days past due	6	2
61-90 days past due		1
Greater than 91 days		4
	6	7

The Company uses a loss allowance matrix to measure lifetime expected credit losses at initial recognition and throughout the life of the receivable. The loss allowance matrix is determined based on the Company's historical default rates over the expected life of trade receivables, adjusted for forward-looking estimates. Management believes the unimpaired amounts that are past due by greater than 30 days are fully collectible based on historical default rates of customers and management's assessment of counterparty credit risk through established credit management techniques as discussed above. At December 31, 2017, the impairment loss allowance amounted to \$1 million (2016: \$1 million). Pembina recognized less than \$1 million in impairment losses on financial assets during 2017 (2016: \$1 million).

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

Liquidity risk

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

December 31, 2017 (\$ millions)	Outstanding balances due by period					
	Carrying Amount	Expected Cash Flows	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Trade payables and accrued liabilities	713	713	713			
Taxes Payable	25	25	3	4	4	14
Loans and borrowings	7,463	10,389	392	2,749	1,658	5,590
Convertible debentures	93	101	101			
Dividends payable	91	91	91			
Derivative financial liabilities	79	79	79			
Finance leases	30	30	7	7	2	14

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

Market risk

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

a. Commodity price risk

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

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

Pembina responds to commodity price risk by using an active Risk Management Program to fix revenues to pay for a minimum of 50 percent of the fixed committed term natural gas supply costs. Pembina's fixed committed natural gas supply can vary from year to year based on industry dynamics. Additionally, Pembina's Midstream business is also

exposed to variability in quality, time and location differentials and the Company may also utilize financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price risk as a result of these activities. The Company does not trade financial instruments for speculative purposes.

b. Foreign exchange risk

Certain of Pembina's cash flows, namely a portion of its commodity-related cash flows, certain cash flows from U.S.-based infrastructure assets, and distributions from U.S.-based Investments in Equity Accounted Investees, are subject to currency risk, arising from the denomination of specific cash flows in U.S. dollars. Additionally, a portion of Pembina's capital expenditures, and contributions or loans to Pembina's U.S.-based Investments in Equity Accounted Investees, may be denominated in U.S. dollars. Pembina monitors, assesses, and responds to these foreign currency risks using an active Risk Management Program, which may include the exchange of foreign currency for domestic currency at a fixed rate.

c. Interest rate risk

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

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

Carrying Amounts of Financial Liability		
December 31 (\$ millions)	2017	2016
Fixed rate instruments	5,685	3,655
Variable rate instruments ⁽¹⁾	1,778	353
	7,463	4,008

⁽¹⁾ At December 31, 2017, the Company held positions in financial derivative contracts to fix interest rates on \$100 million of the underlying variable rate instruments (December 31, 2016 - \$100 million).

Cash flow sensitivity analysis for variable rate instruments

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

December 31 (\$ millions)	2017	2016
	± 100 bp	± 100 bp
Variable rate instruments	±18	±4
Interest rate swap	±1	±1
Earnings sensitivity (net)	±17	±3

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statements of Financial Position, are as follows:

(\$ millions)	December 31, 2017			December 31, 2016		
	Carrying Value	Fair Value ⁽³⁾		Carrying value	Fair Value ⁽³⁾	
		Level 1	Level 2		Level 1	Level 2
Financial assets carried at fair value						
Derivative financial instruments	4		4	9		9
Financial assets carried at amortized cost						
Cash and cash equivalents	321	321		35	35	
Trade receivables and other	529	529		451	451	
Advances to related parties	42	42				
Other assets	13		13	11		11
	905	892	13	497	486	11
Financial liabilities carried at fair value						
Derivative financial instruments ⁽¹⁾	79		79	123		123
Financial liabilities carried at amortized cost						
Trade payables and accrued liabilities	713	713		638	638	
Taxes Payable ⁽¹⁾	25	25		5	5	
Dividends payable	91	91		64	64	
Loans and borrowings ⁽¹⁾	7,463		7,686	4,008		4,234
Convertible debentures ⁽²⁾	93	145		143	210	
	8,385	974	7,686	4,858	917	4,234

⁽¹⁾ Carrying value of current and non-current balances.

⁽²⁾ Carrying value excludes conversion feature of convertible debentures.

⁽³⁾ The basis for determining fair value is disclosed in Note 5.

Interest rates used for determining fair value

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

December 31 (percents)	2017	2016
Derivatives	1.4 - 1.8	0.9 - 1.1
Loans and borrowings	2.0 - 4.7	1.9 - 4.8

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

Fair value hierarchy

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

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

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

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

December 31 (\$ millions)	2017				2016				Total
	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	
Commodity, power, storage and rail financial instruments	4		(31)		9		(61)	(1)	(53)
Interest rate			(2)				(3)	(3)	(6)
Foreign exchange							(1)		(1)
Conversion feature of convertible debentures (Note 14)			(46)					(54)	(54)
Net derivative financial instruments	4		(79)		9		(65)	(58)	(114)

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, 2017 (\$ millions)		+ Change	- Change
Frac spread related			
Natural gas	(AECO +/- \$0.25 per GJ)	4	(4)
NGL (includes propane, butane and condensate)	(Belvieu/Conway +/- U.S. \$0.10 per gal)	(18)	18
Foreign exchange (U.S.\$ vs. Cdn\$)	(FX rate +/- \$0.20)	(25)	25
Product margin			
Crude oil	(WTI +/- \$2.50 per bbl)	(2)	2
NGL (includes condensate)	(Belvieu/Conway +/- U.S. \$0.10 per gal)	N/A	N/A
Corporate			
Interest rate	(Rate +/- 50 basis points)	0.4	(0.4)
Power ⁽¹⁾	(AESO +/- \$5.00 per MW/h)		
Conversion feature of convertible debentures	(Pembina share price +/- \$0.50 per common share)	(1)	1

⁽¹⁾ As at December 31, 2017, there were no outstanding financial derivative contracts related to power.

25. OPERATING LEASES

Leases as lessee

Operating lease rentals are payable as follows:

December 31 (\$ millions)	2017	2016
Less than 1 year	95	101
Between 1 and 5 years	379	383
More than 5 years	270	327
	744	811

The Company leases a number of offices, warehouses, vehicles, land and rail cars under operating leases. The leases run for a period of one to 12 years, with an option to renew the lease after that date. The Company has sublet office space and rail cars up to 2027 and has contracted sub-lease payments for a minimum of \$90 million over the term. The amounts shown in the table above are presented gross.

Leases as lessor

Operating lease revenues are receivable as follows:

December 31 (\$ millions)	2017	2016
Less than 1 year	62	61
Between 1 and 5 years	246	247
More than 5 years	702	763
	1,010	1,071

The Company's lease revenues are generated through minimum payments for certain pipeline assets that are contracted exclusively for use by a single customer. Minimum lease payments received are amortized over the term of the lease. The carrying value of property, plant and equipment under lease is \$484 million (December 31, 2016: \$461 million). Total revenue earned from minimum lease payments was \$61 million in 2017 (2016: \$55 million) and from contingent lease payments was \$21 million (2016: \$26 million).

26. CAPITAL MANAGEMENT

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

The Company maintains a conservative capital structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. The Company funds its operating commitments, short-term capital spending as well as its dividends to shareholders through this cash flow, while

new borrowing and equity issuances are primarily reserved for the support of specific significant development activities. The capital structure of the Company consists of shareholder's equity, comprised of common and preferred equity, plus long-term debt. 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, 2017.

Note 16 of these financial statements shows the change in Share Capital for the year ended December 31, 2017.

27. GROUP ENTITIES

Significant subsidiaries

December 31 (<i>percentages</i>)	Ownership Interest	
	2017	2016
Pembina Pipeline	100	100
Pembina West Limited Partnership	100	100
Pembina Gas Services Limited Partnership	100	100
Pembina Oil Sands Pipeline LP	100	100
Pembina Midstream Limited Partnership	100	100
Pembina Infrastructure and Logistics LP	100	100
Pembina Empress NGL Partnership	100	100
Pembina Resource Services Canada	100	100
Pembina Prairie Facilities Ltd.	100	100
Fort Chicago Pipeline II US LP	100	100
Fort Chicago Holdings II US LLC	100	100
Veresen U.S. Infrastructure Inc.	100	100
Veresen Energy Infrastructure No. 2 Inc.	100	100

28. 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

During the fourth quarter and twelve months ended December 31, 2017, Pembina advanced \$7 million and \$13 million, respectively, in funds to its 50 percent owned joint venture, Canada Kuwait Petrochemical Corporation ("CKPC"). In addition, during the fourth quarter and twelve months ended December 31, 2017, Pembina advanced US\$10 million in addition to the US\$13 million balance assumed on Acquisition for a total of US\$23 million advanced to its jointly controlled investment in Ruby Pipeline Holding Company L.L.C., and has additional commitments to advance US\$102 million to the same related party by March 31, 2018.

Key management personnel and director compensation

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

Compensation

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

Key management personnel compensation comprised:

Year Ended December 31 (\$ millions)	2017	2016
Short-term employee benefits	8	5
Share-based compensation and other	7	3
Total compensation of key management	15	8

Transactions

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

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

Post-employment benefit plans

Pembina has significant influence over the pension plans for the benefit of their respective employees. No balance payable is outstanding at December 31, 2017 (December 31, 2016: nil).

Transactions

<i>(\$ millions)</i>		Transaction Value Year Ended December 31	
		2017	2016
Post-employment benefit plan	Transaction	2017	2016
Defined benefit plan	Funding	16	15



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STOCK EXCHANGE

Pembina Pipeline Corporation

Toronto Stock Exchange listing symbols for:

COMMON SHARES PPL

CONVERTIBLE DEBENTURES PPL.DB.F

PREFERRED SHARES PPL.PR.A, PPL.PR.C, PPL.PR.E, PPL.PR.G, PPL.PR.I, PPL.PR.K, PPL.PR.M,
PPL.PR.O, PPL.PR.Q, PPL.PR.S and PPL.PF.A.

New York Stock Exchange listing symbol for:

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