



Management's Discussion & Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial and operating results of Pembina Pipeline Corporation ("Pembina" or the "Company") is dated May 3, 2018 and is supplementary to, and should be read in conjunction with, Pembina's condensed consolidated unaudited financial statements for the period ended March 31, 2018 ("Interim Financial Statements") as well as Pembina's consolidated audited annual financial statements (the "Consolidated Financial Statements") and MD&A for the year ending December 31, 2017. All dollar amounts contained in this MD&A are expressed in Canadian dollars unless otherwise noted.

Management is responsible for preparing the MD&A. This MD&A has been approved by Pembina's Board of Directors.

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

Readers should refer to page 29 for a list of abbreviations that may be used in this MD&A.

About Pembina

Calgary-based Pembina Pipeline Corporation is a leading transportation and midstream service provider that has been serving North America's energy industry for over 60 years. Pembina owns an integrated system of pipelines that transport various hydrocarbon liquids and natural gas products produced primarily in western Canada. The Company also owns gas gathering and processing facilities and an oil and natural gas liquids infrastructure and logistics business. Pembina's integrated assets and commercial operations along the majority of the hydrocarbon value chain allow it to offer a full spectrum of midstream and marketing services to the energy sector. Pembina is committed to identifying additional opportunities to connect hydrocarbon production to new demand locations through the development of infrastructure that would extend Pembina's service offering even further along the hydrocarbon value chain. These new developments will contribute to ensuring that hydrocarbons produced in the Western Canada Sedimentary Basin and the other basins where Pembina operates can reach the highest value markets throughout the world.

Pembina strives to provide sustainable, industry-leading total returns for our investors; reliable and value-added services for our customers; a net positive impact to communities; and a safe, respectful, collaborative and fair work culture for our employees.

Pembina's strategy is to:

- **Preserve value** by providing safe, environmentally conscious, cost-effective and reliable services;
- **Diversify** by providing integrated solutions which enhance profitability and customer service;
- **Implement Growth** by pursuing projects or assets that are expected to generate cash flow per share accretion and capture long-life, economic hydrocarbon reserves; and
- **Secure Global Markets** by understanding what the world needs, where they need it, and delivering it.

Pembina is structured into three Divisions: Pipelines Division, Facilities Division and Marketing & New Ventures Division, as described in their respective sections of this MD&A.

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

Acquisition of Veresen Inc. ("Veresen")

On October 2, 2017, Pembina completed its acquisition of Veresen by way of a plan of arrangement pursuant to Section 193 of the *Business Corporations Act* (Alberta) (the "Acquisition"). Total consideration of \$6.4 billion was comprised of \$1.5 billion in cash, \$4.4 billion of Pembina common shares and \$522 million of Pembina preferred shares.

Changes in Reporting

Over the past few years, Pembina has experienced transformational growth. Since the beginning of 2015, the Company has placed approximately \$8 billion of new projects into service. Furthermore, in 2017 the Company completed a multi-billion dollar corporate acquisition. Given the enhanced scale and scope of Pembina's business and considering the future needs of both the Company and the energy industry, Pembina's management structure was reorganized, effective January 1, 2018, into three Divisions: Pipelines, Facilities and Marketing & New Ventures ("Corporate Reorganization").

Accordingly, the Company's financial reporting format has changed to better align with the new structure. The new organizational structure and reporting format provides a number of benefits including consistency between how Pembina's business is managed and how results are reported; the placement of like assets together within the same reporting segment; the creation of centres of excellence, which will increase reliability and cost efficiencies; and the establishment of a separate reporting segment for Pembina's commodity marketing activities and the development of larger-scale, value-chain extension projects.

Pembina also adopted IFRS 15 Revenue from Contracts with Customers retrospectively, effective January 1, 2018. While this change is not currently expected to have a material impact on annual revenue recognition, it is expected to result in a change in timing for quarterly revenue recognition with lower revenue in the first and second quarters and higher revenue in the third and fourth quarters. For the quarter ending March 31, 2018, \$30 million of revenue which would have been recognized in the quarter under previous accounting principles has been deferred as a result of the adoption of the new standard and \$1 million was recognized in 2018 that under previous accounting policies would have been recognized in 2017.

Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the reorganization and adoption of IFRS 15.

Financial & Operating Overview

| | 3 Months Ended | |
|---|-------------------------|-------|
| | March 31 (unaudited) | |
| | 2018 | 2017 |
| <i>(\$ millions, except where noted)</i> | | |
| Revenue | 1,837 | 1,480 |
| Net revenue ⁽¹⁾ | 719 | 549 |
| Operating expense | 150 | 107 |
| Realized loss on commodity-related derivative financial instruments | 18 | 40 |
| Share of profit of investments in equity accounted investees | 76 | |
| Depreciation and amortization included in operations | 89 | 79 |
| Unrealized gain on commodity-related derivative financial instruments | (30) | (53) |
| Gross profit | 568 | 376 |
| General and administrative expenses (excluding corporate depreciation) | 53 | 55 |
| Net finance costs | 59 | 30 |
| Current income tax expense | 22 | 12 |
| Deferred tax expense | 93 | 67 |
| Earnings | 330 | 210 |
| Earnings per common share – basic and diluted (<i>dollars</i>) | 0.59 | 0.48 |
| Cash flow from operating activities | 498 | 326 |
| Cash flow from operating activities per common share – basic (<i>dollars</i>) ⁽¹⁾ | 0.99 | 0.82 |
| Adjusted cash flow from operating activities ⁽¹⁾ | 530 | 308 |
| Adjusted cash flow from operating activities per common share – basic (<i>dollars</i>) ⁽¹⁾ | 1.05 | 0.77 |
| Common share dividends declared | 272 | 191 |
| Dividends per common share (<i>dollars</i>) | 0.54 | 0.48 |
| Preferred share dividends declared | 30 | 19 |
| Capital expenditures | 324 | 709 |
| Proportionately Consolidated Financial Overview⁽²⁾ | | |
| Total Volume (<i>mboe/d</i>) ⁽³⁾ | 3,266 | 2,371 |
| Operating Margin ⁽¹⁾ | 757 | 407 |
| Adjusted EBITDA ⁽¹⁾ | 688 | 358 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Refer to "Proportionately Consolidated Overview".

⁽³⁾ Total sales and revenue volumes. Revenue volumes are physical plus volumes recognized from take-or-pay commitments. Volumes are stated in mboe/d, with natural gas volumes converted to mboe/d from MMcf/d at a 6:1 ratio. Volumes have been restated to reflect the Corporate Reorganization.

Financial Overview

Pembina delivered strong financial and operational results in the first quarter of 2018. Revenue in the first quarter of 2018 was \$1.8 billion compared to \$1.5 billion for the same period in 2017. The increase in revenue for the quarter was driven by increased sales volume, and improved NGL and crude oil market prices in the Marketing and New Ventures Division and a larger asset base and the Veresen Acquisition, which together, generated higher revenue volumes in the Pipelines and Facilities Divisions. Net revenue (revenue less cost of goods sold including product purchases) was \$719 million for the first quarter of 2018 compared to \$549 million in the same period of 2017. This increase was driven by higher revenue from new assets being placed into service and assets acquired through the Veresen Acquisition.

Operating expenses were \$150 million for the first quarter of 2018 compared to \$107 million during the same period of 2017. This increase was predominantly driven by a larger asset base which resulted in higher power and labour expenses partially offset by lower integrity spending.

Share of profit of investments in equity accounted investees represents net earnings from investments in equity accounted investees primarily including Alliance, Ruby, Aux Sable and Veresen Midstream. Share of profit of investments in equity accounted investees was \$76 million in the first quarter of 2018, driven primarily from results from Alliance and Ruby which were acquired in the fourth quarter of 2017.

Depreciation and amortization included in operations during the first quarter of 2018 was \$89 million compared to \$79 million for the same period in 2017. This increase was largely the result of the year-over-year growth in Pembina's asset base with the system expansions in the Pipelines Division and new fractionation facilities and gas processing plants in the Facilities Division.

Gross profit for the first quarter of 2018 was \$568 million compared to \$376 million during the first quarter of 2017. This increase includes \$168 million increase in the Pipelines Division, \$41 million increase in the Facilities Division and \$13 million decrease in Marketing and New Ventures. The Pipelines and Facilities Divisions increases were driven primarily by the Acquisition and stronger performance resulting from increases in volume and revenues due to new assets placed into service within these businesses.

For the three-month period ended March 31, 2018, Pembina incurred general and administrative expenses (excluding corporate depreciation and amortization) of \$53 million compared to \$55 million during the comparable period of 2017. This decrease was largely due to a decrease in Pembina's share price which impacted the measurement of the Company's compensation plan liabilities combined with decreased rent expense in the current year, partially offset by increased staff to support the growth in the Company's asset base.

Net finance costs incurred during the first quarter of 2018 were \$59 million compared to \$30 million for the same period in 2017. This increase was primarily due to increased interest expense driven by higher loans and borrowings, reduced capitalization of borrowing costs as significant assets have come into service and increased losses on non-commodity related financial derivatives, partially offset by fluctuations in the fair value of the convertible debentures conversion feature and increased foreign exchange gains.

Income tax expense for the first quarter of 2018 totaled \$115 million, including current tax expense of \$22 million and deferred tax expense of \$93 million, compared to income tax expense of \$79 million in the same period of 2017, including current tax expense of \$12 million and deferred tax expense of \$67 million. Current tax expense for the first quarter of 2018 was higher than the comparable period in 2017 mainly due to higher taxable income allocations from partnerships in Pembina's corporate structure. Deferred tax expense for the first quarter of 2018 was higher than the comparable period in 2017 due to higher earnings before taxes in equity-accounted investments and partnerships that are taxable in the subsequent year.

The Company's earnings were \$330 million during the first quarter of 2018 compared to \$210 million in the same period of 2017. The increase was primarily a result of higher gross profit partially offset by increased tax expense and net finance costs. Earnings attributable to common shareholders, net of dividends attributable to preferred shareholders, during the first quarter of 2018 were \$300 million (\$0.59 per common share - basic and diluted) and \$190 million in the first quarter of 2017 (\$0.48 per common share – basic and diluted).

Cash flow from operating activities for the quarter ended March 31, 2018 was \$498 million (\$0.99 per common share – basic) compared to \$326 million (\$0.82 per common share – basic) during the first quarter of 2017. This increase was

primarily due to higher gross profit and higher distributions from investments in equity accounted investees acquired through the Acquisition, partially offset by higher taxes paid and interest paid combined with a decreased change in non-cash working capital.

Adjusted cash flow from operating activities for the first quarter of 2018 was \$530 million (\$1.05 per common share – basic) compared to \$308 million (\$0.77 per common share – basic) during the first quarter of 2017. Increased cash flow from operating activities (net of changes in non-cash working capital) was partially offset by increased current tax expense, additional preferred share dividends and accrued share-based payments expense.

Relative to the first quarter of 2017, the first quarter of 2018 per common share metrics were also impacted by increased common shares outstanding due to the Acquisition.

Capital expenditures were \$324 million in the first quarter of 2018 as compared to \$709 million during the same period in 2017. The majority of spending in both 2018 and 2017 related to Pembina's expansion programs. Please refer to disclosure under the heading "Capital Expenditures" in this MD&A for further detail.

Proportionately Consolidated Overview⁽¹⁾

Total volumes were 3,266 mboe/d in the first quarter of 2018 as compared to 2,371 mboe/d in the same period in the prior year. See table below under "Financial and Operational Overview by Division" for a breakdown by operating segment.

During the first quarter of 2018, operating margin increased by 86 percent to \$757 million compared to \$407 million in the first quarter of 2017. This increase is largely a result of the Acquisition and increases in volume and revenues due to new assets placed into service.

Pembina generated Adjusted EBITDA of \$688 million during the first quarter of 2018 compared to \$358 million for the same period in 2017. This 92 percent increase was due to increased operating margin as noted above.

⁽¹⁾ Refer to "Non-GAAP Measures".

Financial and Operational Overview by Division

| | 3 Months Ended March 31 (unaudited) | | | | | |
|--|---|--------------|---------------------------------|------------------------|--------------|---------------------------------|
| | 2018 | | | 2017 ⁽³⁾ | | |
| <i>(\$ millions, except where noted)</i> | Volumes ⁽²⁾ | Gross Profit | Operating Margin ⁽¹⁾ | Volumes ⁽²⁾ | Gross Profit | Operating Margin ⁽¹⁾ |
| Pipelines Division | 2,424 | 294 | 416 | 1,667 | 126 | 165 |
| Facilities Division | 842 | 143 | 225 | 704 | 102 | 140 |
| Marketing & New Ventures Division | | 133 | 118 | | 146 | 100 |
| Corporate | | (2) | (2) | | 2 | 2 |
| Total | 3,266 | 568 | 757 | 2,371 | 376 | 407 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Pipelines and Facilities Divisions are revenue volumes which are physical plus volumes recognized from take-or-pay commitments. Volumes are stated in mboe/d, with natural gas volumes converted to mboe/d from MMcf/d at a 6:1 ratio. Volumes have been restated to reflect the Corporate Reorganization.

⁽³⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

Pipelines Division

| 3 Months Ending March 31 (unaudited) | | |
|--|-------|---------------------|
| <i>(\$ millions, except where noted)</i> | 2018 | 2017 ⁽⁴⁾ |
| Financial Overview | | |
| Revenue ⁽³⁾ | 353 | 244 |
| Operating expenses ⁽³⁾ | 85 | 78 |
| Realized loss on commodity-related derivative financial instruments | | 1 |
| Share of profit from equity accounted investees | 75 | |
| Depreciation and amortization included in operations | 49 | 39 |
| Gross profit | 294 | 126 |
| Capital expenditures | 266 | 527 |
| Proportionately Consolidated Financial Overview⁽¹⁾ | | |
| Revenue Volume (mboe/d) ⁽²⁾ | 2,424 | 1,667 |
| Operating Margin ⁽¹⁾⁽³⁾ | 416 | 165 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Revenue volumes are physical plus volumes recognized from take-or-pay commitments.

⁽³⁾ Includes inter-Division transactions. See note 12 of the Interim Financial Statements.

⁽⁴⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

| | 3 Months Ended March 31 (unaudited) | | | | | |
|--|--|--------------|---------------------------------|------------------------|--------------|---------------------------------|
| | 2018 | | | 2017 ⁽²⁾ | | |
| <i>(\$ millions, except where noted)</i> | Volumes ⁽³⁾ | Gross Profit | Operating Margin ⁽¹⁾ | Volumes ⁽³⁾ | Gross Profit | Operating Margin ⁽¹⁾ |
| Pipelines Division | | | | | | |
| Conventional Pipelines | 766 | 168 | 202 | 617 | 87 | 115 |
| Transmission Pipelines | 584 | 95 | 176 | 35 | 5 | 11 |
| Oil Sands Pipelines | 1,074 | 31 | 38 | 1,015 | 34 | 39 |
| Total | 2,424 | 294 | 416 | 1,667 | 126 | 165 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

⁽³⁾ Revenue volumes which are physical plus volumes recognized from take-or-pay commitments. Volumes are mboe/d and have been restated to reflect the Corporate Reorganization.

Business Overview

The Pipelines Division has over 18,000 kms of pipelines with a total capacity of approximately 3 million barrels of oil equivalent per day serving various markets and basins across North America. The Pipelines Division is comprised of Pembina's conventional, transmission and oil sands pipeline assets. The primary objectives of the Division are to provide safe, responsible, reliable and cost-effective transportation services for customers; pursue opportunities for increased throughput; maintain and/or grow sustainable operating margin on invested capital by capturing incremental volumes; provide solutions to our customers; grow revenue; and follow a disciplined approach to operating expenses.

Pembina's conventional pipeline assets comprise a strategically located network of approximately 9,000 kms of pipelines and related infrastructure including various hubs and terminals. This network transports crude oil, condensate and natural gas liquids ("NGL") across much of Alberta and parts of British Columbia. The contracts for conventional pipelines are fee-for-service in nature, but vary in their structure, and include both firm and non-firm contracts and varying levels of take-or-pay commitments.

Pembina's oil sands assets include approximately 2,400 kms of pipelines and related infrastructure. Service is provided predominantly under long-term, extendible contracts, which provide for the flow-through of eligible operating expenses to customers. As a result, operating margin from these assets is primarily driven by the amount of capital invested and is predominantly not sensitive to fluctuations in certain operating expenses, actual throughput or commodity prices.

Pembina's transmission pipeline assets have developed through the strategic acquisition of key natural gas and specification ethane transportation infrastructure assets, positioned in some of the most prolific gas producing regions in western Canada and the United States. Currently, Pembina has interests in approximately 7,000 kilometers of transmission pipelines providing customers with access to premium markets primarily on a fee-for-service basis under long-term contracts.

As part of the Corporate Reorganization, the following assets have been reclassified:

- Vantage Pipeline has been reclassified from a conventional asset to a transmission asset within the Pipelines Division;
- the Swan Hills System has been reclassified from a conventional asset to an oil sands asset within the Pipelines Division;
- the Canadian Diluent Hub ("CDH") and the Edmonton North Terminal ("ENT") have been reclassified from the former Midstream operating segment to conventional assets within the Pipelines Division; and
- the Alberta Ethane Gathering System, Ruby Pipeline and Alliance Pipeline, all formerly reported under the Veresen operating segment, are now transmission assets included in the Pipelines Division.

All other assets comprising the previous Conventional and Oil Sands Pipelines operating segments are also included in the Pipelines Division (as conventional or oil sands pipelines assets, respectively). All financial and operating results in this MD&A for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization.

Operational Overview

During the first quarter of 2018, Pipelines Division's revenue volumes averaged 2,424 mboe/d, an increase of 45 percent compared to the same period of 2017, when revenue volumes were 1,667 mboe/d. Higher volumes as a result of system expansions were realized on Pembina's Peace and Northeast B.C. pipeline systems, namely the Phase III pipeline expansion ("Phase III Expansion"), as well as the Northeast B.C. pipeline expansion (the "NEBC expansion"), which were placed into service in the second and fourth quarters of 2017, respectively, and increased capacity at the initiating pump

station on the Horizon Pipeline which was placed into service in the third quarter of 2017. In addition, Pembina acquired the Alberta Ethane Gathering System ("AEGS") and equity investments in Alliance and Ruby through the Acquisition which accounted for an increase of 541 mboe/d average revenue volumes (net to Pembina) in the first quarter of 2018 as compared to the same period of 2017. Certain volumes from integrated pipeline assets have been excluded from the calculation to avoid double counting.

Financial Overview

During the first quarter of 2018, Pipelines Division generated revenue of \$353 million, 45 percent higher than the \$244 million generated in the same quarter of the previous year. This increase resulted from higher revenue volumes as discussed above as well as increased posted tolls on some systems. For the quarter ending March 31, 2018, revenue and operating margin of \$27 million has been deferred as a result of the adoption of the IFRS 15 *Revenue* standard, see "Changes in Accounting Policies".

During the first quarter of 2018, operating expenses of \$85 million were \$7 million higher than those recognized in the first quarter of 2017. This increase was primarily the result of higher power costs, higher field maintenance spending to support Pembina's pipeline system expansions and higher labour expenses associated with increased headcount, partially offset by lower integrity spending primarily due to reduced activity associated with integrity management program scheduling.

Share of profit of investments in equity accounted investees totaled \$75 million in the first quarter of 2018, compared to nil in the first quarter of the prior year. Pembina's share of profit from Alliance pipeline during the period totaled \$46 million. Revenue volumes for Alliance of 1,760 MMcf/d gross (880 MMcf/d net) during the period benefited from high demand on daily firm and interruptible services driven by favorable weather conditions. Ruby pipeline generated share of profit for the period of \$28 million which represents the dividend received associated with the Company's preferred interest. Ruby has long-term take-or-pay contracts in place for approximately 1,068 MMcf/d gross (534 MMcf/d net), or 71 percent, of the pipeline's capacity. The remaining \$1 million of share of profit is derived from other investments in equity accounted investees.

Depreciation and amortization included in operations during the first quarter of 2018 was \$49 million compared to \$39 million recognized during the same period of the prior year. The increase in 2018 was due to additional in-service assets relating to Pembina's conventional asset system expansions.

For the three months ended March 31, 2018, gross profit was \$294 million compared to \$126 million for the same period in 2017. This increase was due to higher revenue and share of profit of investments in equity accounted investees, partially offset by increased operating expense and depreciation and amortization included in operations.

Capital expenditures for the first quarter of 2018 totaled \$266 million compared to \$527 million for the same period in 2017. The majority of this spending is related to Pembina's ongoing pipeline expansion projects, some of which are described below, including clean-up costs for assets already placed into service.

Proportionately Consolidated Financial Overview

Based on proportionate consolidation accounting for Investments in Equity Accounted Investees, operating margin was \$416 million in the first quarter of 2018 compared to \$165 million for the same period of 2017. This increase was due to the same factors impacting gross profit noted above combined with the acquisition of equity investments in Alliance and Ruby in the fourth quarter of 2017. Operating margin derived from Alliance, Ruby and other investments (on a proportionately consolidated basis) was \$98 million, \$48 million and \$2 million, respectively, in the first quarter of 2018. See "Non-GAAP Measures".

New Developments

The Company's conventional pipelines business has continued to receive customer demand for its transportation services which has resulted in a significant and ongoing build-out of its pipeline systems to support the production growth in the Montney, Duvernay and Deep Basin resource plays.

Pembina's Phase IV expansion ("Phase IV") is tracking on budget and on schedule with construction anticipated to begin in the second quarter. Phase IV is expected to be placed into service in late 2018 and will add approximately 180 mbpd of capacity between Fox Creek and Namao, Alberta.

The Company's Phase V expansion ("Phase V"), which will add approximately 260 mbpd of capacity between Lator and Fox Creek, Alberta, continues to trend on budget and on schedule and is expected to be placed into service in late 2018.

Due to continued strong customer demand for its transportation services, Pembina announced today that it is proceeding with its Phase VI Peace Pipeline expansion ("Phase VI") which will include: upgrades at Gordondale; Alberta; a 16-inch pipeline from LaGlace to Wapiti, Alberta and associated pump station upgrades; and a 20-inch pipeline from Kakwa to Lator, Alberta. The approximately \$280 million Phase VI expansion is anticipated to be in service in early 2020, subject to environmental and regulatory approvals.

On March 28, Pembina announced that Alliance, of which it owns a 50 percent interest, has commenced a two-month open season for an incremental 400 MMcf/d of firm service capacity commitments through the addition of compression and other facilities. Subject to regulatory and environmental approvals and the results of the open season, the project is expected to be placed into service in the fourth quarter of 2021 for a total capital cost of approximately \$2 billion (\$1 billion net) and would be backstopped by long-term, take-or-pay contracts.

Pembina, together with Enbridge Income Fund, the other 50 percent owner of Alliance, have announced plans to convert the operation and administration of Alliance into an owner-operator model. The new operating model is expected to be in place by mid-2018 and will have a number of benefits, including creating strategic alignment that will result in improved efficiencies by being part of a larger organization.

Facilities Division

| 3 Months Ending March 31 (unaudited) | | |
|--|-------------|---------------------------|
| <i>(\$ millions, except where noted)</i> | 2018 | 2017⁽⁴⁾ |
| Financial Overview | | |
| Revenue ⁽³⁾ | 329 | 231 |
| Net revenue ⁽¹⁾⁽³⁾ | 248 | 188 |
| Operating expenses ⁽³⁾ | 65 | 53 |
| Share of loss from equity accounted investees | (5) | |
| Depreciation and amortization included in operations | 35 | 33 |
| Gross profit | 143 | 102 |
| Capital expenditures | 38 | 177 |
| Contributions to equity accounted investees | 58 | |
| Proportionately Consolidated Financial Overview⁽¹⁾ | | |
| Total Volume (mboe/d) ⁽²⁾ | 842 | 704 |
| Operating Margin ⁽¹⁾⁽³⁾ | 225 | 140 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Revenue volumes which are physical plus volumes recognized from take-or-pay commitments. Volumes are stated in mboe/d, with natural gas volumes converted to mboe/d from MMcf/d at a 6:1 ratio.

⁽³⁾ Includes inter-Division transactions. See note 12 of the Interim Financial Statements.

⁽⁴⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

| 3 Months Ended March 31 (unaudited) | | | | | | |
|---|------------------------------|---------------------|---------------------------------------|------------------------------|---------------------|---------------------------------------|
| | 2018 | | | 2017⁽³⁾ | | |
| <i>(\$ millions, except where noted)</i> | Volumes⁽²⁾ | Gross Profit | Operating Margin⁽¹⁾ | Volumes⁽²⁾ | Gross Profit | Operating Margin⁽¹⁾ |
| Facilities Division | | | | | | |
| Gas Services | 636 | 66 | 130 | 545 | 56 | 75 |
| NGL Services | 206 | 77 | 95 | 159 | 46 | 65 |
| Total | 842 | 143 | 225 | 704 | 102 | 140 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Revenue volumes which are physical plus volumes recognized from take-or-pay commitments. Volumes are stated in mboe/d, with natural gas volumes converted to mboe/d from MMcf/d at a 6:1 ratio. Volumes have been restated to reflect the Corporate Reorganization.

⁽³⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

Business Overview

The Facilities Division includes processing and fractionation facilities and related infrastructure that provide Pembina's customers with natural gas and NGL services.

Pembina's operations include natural gas gathering and processing assets, which are strategically positioned in active condensate and NGL-rich areas of the Western Canada Sedimentary Basin ("WCSB"), and are integrated with the Company's other businesses. Pembina provides sweet and sour gas gathering, compression, condensate stabilization, and both shallow cut and deep cut processing services for its customers, primarily on a fee-for-service basis under long-term contracts. The majority of condensate and NGL extracted through these facilities are transported by assets in Pembina's Pipelines Division. A significant portion of the volumes are further processed at Pembina's fractionation facilities. In total, Pembina has 19 gas processing facilities¹ and approximately 6 billion cubic feet per day of net gas processing capacity¹.

Additionally, the Facilities Division includes NGL fractionation, cavern storage, and terminalling (loading and off-loading services) facilities. These facilities are fully integrated with the Company's Pipelines Division and other assets, providing customers across the WCSB and North America with the ability to contract for more than one service with Pembina and access a comprehensive suite of services to enhance the value of their hydrocarbons. In total, Pembina has 5 fractionation facilities¹ and 286 mmb/d of net fractionation capacity¹.

As part of the Corporate Reorganization, the following assets have been reclassified:

- the Empress NGL Extraction Facility and the Younger NGL Extraction Facility have been reclassified from the former Midstream operating segment to gas services assets within the Facilities Division; and
- Veresen Midstream, which was previously reported under the Veresen operating segment, is now classified as a gas services asset included in the Facilities Division.

All other assets comprising the previous Gas Services and Midstream operating segments are also included in the Facilities Division other than CDH and ENT (which are in the Pipelines Division) and commodity marketing activities, which are in the Marketing and New Ventures Division. All financial and operating results in this MD&A for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization.

Operational Performance

Gas processing revenue volumes were 3,816 million MMcf/d (636 mboe/d) during the first quarter of 2018, 17 percent higher than the 3,270 MMcf/d (545 mboe/d) recorded during the first quarter of 2017. This increase was due to the startup of the Duvernay I gas plant and acquisition of Veresen Midstream in the fourth quarter of 2017 as well as higher realized revenue volumes at Empress, Kakwa River and Resthaven. These increases were partially offset by decreased volumes at Younger and the Cutbank Complex. NGL services revenue volumes averaged 206 mboe/d in the first quarter of 2018 compared to 159 mboe/d recognized during the same period in 2017. The increase in NGL services revenue volumes was largely a result of increased volumes from RFS III which was placed into service on June 30, 2017.

Certain volumes from the integrated facilities assets have been excluded from the total calculation to avoid double counting.

¹ Includes Aux Sable capacity, as further described below. The financial and operational results for Aux Sable are included in the Marketing and New Ventures Division. Excludes projects Under Development.

Financial Overview

Facilities Division realized \$329 million in revenue during the first quarter of 2018 compared to \$231 million in the first quarter of 2017. This 42 percent increase was due to increased volumes at RFS III and the infrastructure that supports the North West Redwater Partnership's refinery which were placed into service on June 30, 2017 and December 1, 2017, respectively, as well as the startup of the Duvernay I gas plant in the fourth quarter of 2017. Partially offsetting these increases was the receipt of a \$10 million non-recurring customer receivership settlement recognized in the first quarter of 2017. For the quarter ending March 31, 2018, revenue and operating margin of \$3 million has been deferred as a result of the adoption of the IFRS 15 *Revenue* standard. See "Changes to Accounting Principles".

During the first quarter of 2018, Facilities Division incurred operating expenses of \$65 million compared to \$53 million in the first quarter of 2017. This increase was predominantly due to increased power, repairs and maintenance and labour as a result of the addition of facilities and associated expenses as noted above. In addition, the Facilities Division incurred a one-time transition charge of \$3 million in the first quarter of 2018 in respect of the Company becoming the operator of the Younger facility effective April 1, 2018.

Share of loss of investments in equity accounted investees totaled \$5 million for the first quarter of 2018 compared to nil in the first quarter of 2017. The \$5 million share of loss of investments in equity accounted investees is primarily a result of a \$6 million loss attributable to Veresen Midstream due to interest expense and depreciation. Veresen Midstream's volumes during the period were positively impacted from the early startup of the Sunrise and Tower facilities in September 2017 and the Saturn I facility on November 1, 2017. In the fourth quarter of 2017, Veresen Midstream negotiated a reduction in pricing on its outstanding debt facilities resulting in a gain of \$24 million, net to Pembina, that was recorded during the prior year. The reduced interest rate results in lower cash interest costs, but interest expense will continue to be recorded at the original effective interest rate on the debt.

Depreciation and amortization included in operations during the first quarter of 2018 totaled \$35 million compared to \$33 million during the same period in the prior year. This increase was primarily attributable to the addition of the Duvernay Complex in late 2017.

For the three months ended March 31, 2018, gross profit was \$143 million compared to \$102 million in the same period of 2017. The increase year-over-year was primarily due to higher net revenue, partially offset by increased operating expense, share of loss of investments in equity accounted investees and depreciation and amortization included in operations.

Capital expenditures for the first quarter of 2018 were \$38 million compared to \$177 million for the same period of 2017. Capital spending in 2018 was largely to progress construction on the Burstall Ethane Storage, Duvernay II (defined below under "New Developments") and on the progression of the liquefied petroleum gas export terminal. See further discussion under "New Developments" below. In 2017, capital spending was largely to progress the development in the Duvernay area as well as the construction of RFS III.

Proportionately Consolidated Financial Overview

Facilities Division realized operating margin, based on proportionate consolidation accounting for Investments in Equity Accounted Investees, of \$225 million in the first quarter of 2018 compared to \$140 million during the same period of the prior year. This increase was the result of the factors discussed above as well as due to the acquisition of the equity investment in Veresen Midstream (on a proportionately consolidated basis) in the fourth quarter of 2017. See "Non-GAAP Measures".

New Developments

Pembina continues to progress construction of its 100 MMcf/d sweet gas shallow cut processing facility, 30,000 barrels per day condensate stabilization facility and other associated infrastructure located at the Company's Duvernay Complex ("Duvernay II"). The facilities are under 20-year term contracts with a combination of fee-for-service and fixed-return arrangements. The majority of long lead items have been purchased and the project is tracking on budget and on schedule. Subject to regulatory and environmental approvals, which are expected in May 2018, this project has an expected in-service date of mid-to-late 2019.

As previously disclosed, on April 1, 2018, Pembina became the operator of the Company's Younger facility, which was operated by its joint interest partner.

Veresen Midstream, in which Pembina owns a 46.2 percent interest, is continuing to progress the development of its North Central liquids hub ("North Central Liquids Hub") which will provide separation and stabilization of condensate volumes to support operations of the Cutbank Ridge Partnership (a third-party exploration and production joint venture) within the Montney formation. The North Central Liquids Hub is expected to be placed into service in late 2018 and is currently trending under budget and ahead of schedule.

As previously announced, in January 2018, Veresen Midstream placed its second 200 MMcf/d gross (93 MMcf/d net) Saturn gas processing facility into service ahead of schedule and under budget. In support of the liquids-rich Montney resource play development, Veresen Midstream has placed 1 bcf/d (gross) of gas processing capacity into service over late 2017 and early 2018.

Pembina is continuing the development of its liquefied petroleum gas ("LPG") export terminal (the "Prince Rupert Terminal"). The Prince Rupert Terminal is located on Watson Island, British Columbia and is expected to have a permitted capacity of approximately 25,000 barrels per day of LPG. The LPG supply will primarily be sourced from the Company's Redwater fractionation complex. Pembina continues to progress stakeholder consultation, permitting and detailed engineering work. The Prince Rupert Terminal is anticipated to be in service mid-2020, subject to regulatory and environmental approvals.

As previously announced, Pembina will construct new fractionation and terminalling facilities at the Company's Empress, Alberta extraction plant (the "Empress Expansion") for a total expected capital cost of approximately \$120 million. The Empress Expansion includes adding approximately 30,000 bpd of propane-plus fractionation capacity as well as the addition of propane rail loading and butane truck terminalling services to the site. Detailed engineering commenced in April with an anticipated in-service date of late 2020, subject to environmental and regulatory approvals. These facilities will provide the Company with increased NGL volumes and market optionality, as well as enhanced propane supply access which could further support the Company's Prince Rupert export terminal and proposed propane dehydrogenation and polypropylene production facility.

The Company continues to advance the construction of a 1 million barrel ethane storage facility ("Burstall Ethane Storage") located near Burstall, Saskatchewan for a total expected capital cost of approximately \$189 million. The Burstall Ethane Storage is underpinned by a 20-year agreement and is tracking on schedule with the expected in service date of late 2018.

Marketing & New Ventures Division

| 3 Months Ending March 31 (unaudited) | | |
|---|--------------|---------------------|
| <i>(\$ millions, except where noted)</i> | 2018 | 2017 ⁽³⁾ |
| Financial Overview | | |
| Revenue | 1,254 | 1,067 |
| Cost of goods sold ⁽²⁾ | 1,134 | 928 |
| Net revenue ⁽¹⁾⁽²⁾ | 120 | 139 |
| Share of profit from equity accounted investees | 6 | |
| Realized loss on commodity-related derivative financial instruments | 18 | 39 |
| Unrealized gain on commodity-related derivative financial instruments | (30) | (53) |
| Depreciation and amortization included in operations | 5 | 7 |
| Gross profit | 133 | 146 |
| Capital expenditures | 20 | |
| Proportionately Consolidated Financial Overview⁽¹⁾ | | |
| Total Marketed NGL Volumes (<i>mboe/d</i>) | 189 | 155 |
| Operating Margin ⁽¹⁾⁽²⁾ | 118 | 100 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Includes inter-Division transactions. See note 12 of the Interim Financial Statements.

⁽³⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

| 3 Months Ended March 31 (unaudited) | | | | | | |
|---|------------------------|--------------|---------------------------------|------------------------|--------------|---------------------------------|
| | 2018 | | | 2017 ⁽³⁾ | | |
| <i>(\$ millions, except where noted)</i> | Volumes ⁽²⁾ | Gross Profit | Operating Margin ⁽¹⁾ | Volumes ⁽²⁾ | Gross Profit | Operating Margin ⁽¹⁾ |
| Marketing & New Ventures Division | | | | | | |
| Marketing | 189 | 133 | 118 | 155 | 146 | 100 |
| New Ventures | | | | | | |
| Total | 189 | 133 | 118 | 155 | 146 | 100 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ Marketed NGL volumes.

⁽³⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization and adoption of IFRS 15.

Business Overview

The Marketing & New Ventures Division strives to maximize the value of hydrocarbon liquids and natural gas originating in the basins where the Company operates.

Pembina seeks to create new markets, and further enhance existing markets, to support both the Company's and its customers' overall business interests. In particular, Pembina seeks to identify opportunities to connect hydrocarbon production to new demand locations through the development of infrastructure. Pembina strives to increase producer netbacks and product demand to improve the overall competitiveness of the WCSB and other basins.

Pembina undertakes value-added commodity marketing activities including buying and selling products (natural gas, ethane, propane, butane, condensate and crude oil) and capitalizing on storage opportunities. By contracting capacity on Pembina's and various third-party pipelines and utilizing the Company's rail fleet and rail logistics capabilities, the Marketing business is able to add incremental value to the commodities. Marketing activities also include identifying commercial opportunities to further develop other Pembina assets. Examples of such assets include Pembina's integrated rail fleet and terminalling

and storage assets, that were specifically developed to support getting marketed volumes to high value markets across North America.

The Marketing business enters into contracts for capacity on both Pembina's and third-party infrastructure, handles proprietary and customer volumes and aggregates production for onward sale. Operating margins are subject to commodity price fluctuations, product differentials, location basis differentials and total volumes.

Pembina's Marketing business also includes results from Aux Sable's NGL extraction facility near Chicago, Illinois and other natural gas and NGL processing facilities, logistics and distribution assets in the United States and Canada.

Pembina's New Ventures currently includes the proposed propylene and polypropylene facility ("PDH/PP Facility") and the proposed Jordan Cove LNG project.

As part of the Corporate Reorganization, the following assets have been reclassified:

- the proposed PDH/PP Facility, previously included in the former Midstream operating segment, is now included in the Marketing & New Ventures Division; and
- Aux Sable and the proposed Jordan Cove LNG Project, which were both previously reported under the Veresen operating segment, are now included in the Marketing & New Ventures Division.

In addition, Pembina's commodity marketing activities, which were previously reported in the former Midstream operating segment, are now included in the Marketing & New Ventures Division. All financial and operating results in this MD&A for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization.

Financial Overview

Marketing & New Ventures Division realized \$1.3 billion in revenue during the first quarter of 2018 compared to \$1.1 billion in the first quarter of 2017. The 18 percent increase was due to increased propane, butane, condensate and crude oil market prices and marketed NGL volumes during the current quarter compared to the same period in the prior year. Net revenue (including intercompany transactions) realized during the first quarter of 2018 was \$120 million compared to \$139 million in the first quarter of 2017. The 14 percent decrease was due to increased cost of goods sold driven by commodity price improvements and increased fee-for-service arrangements for transportation and storage.

Share of profit from Aux Sable totalled \$6 million during the first quarter of 2018 compared to nil in the first quarter of 2017 due to the Acquisition, which included Aux Sable. Gross profit recognized by Aux Sable during the period benefited from a recovery in US exports resulting in relatively strong propane plus margins driven by cold weather and a wide Chicago-AECO differential.

Realized losses and unrealized gains on commodity-related financial derivatives during the first quarter of 2018 were \$18 million and \$30 million, respectively, compared to a realized loss of \$39 million and an unrealized gain of \$53 million, respectively, in the same periods of 2017. Pembina enters into commodity-related derivative financial instruments to protect margins in changing commodity price environments. The current year loss was predominantly driven by decreases in natural gas prices and increases in the price of propane and butane. Currently, Pembina has hedged approximately 65 percent of the Company's frac spread throughput for 2018 (excluding its interest in Aux Sable).

Depreciation and amortization included in operations during the first quarter of 2018 was \$5 million compared to \$7 million recognized during the same period of the prior year. Amortization in this Division relates to the amortization of an intangible asset.

For the three months ended March 31, 2018, gross profit was \$133 million compared to \$146 million for the same period in 2017. This decrease was due to lower net revenue combined with a lower net gain on commodity-related financial instruments.

Capital expenditures for the first quarter of 2018 totaled \$20 million, primarily for Jordan Cove, compared to nil for the same period in 2017 prior to the Acquisition of Veresen which included Jordan Cove.

Proportionately Consolidated Financial Overview

Marketing & New Ventures Division realized operating margin, based on proportionate consolidation accounting for Investments in Equity Accounted Investees, of \$118 million in the first quarter of 2018 compared to \$100 million during the same period of the prior year. This increase was the result of the factors discussed above as well as due to the acquisition of the equity investment in Aux Sable (on a proportionately consolidated basis) in the fourth quarter of 2017. See "Non-GAAP Measures".

New Developments

Pembina continues to progress its proposed liquefied natural gas export terminal in Coos Bay, Oregon, and the related Pacific Connector Gas Pipeline (combined "Jordan Cove") that will transport natural gas from the Malin Hub in southern Oregon to the export terminal.

Canada Kuwait Petrochemical Company ("CKPC") continues to progress front end engineering design ("FEED") for a combined propane dehydrogenation and polypropylene production facility. It is expected that FEED activities will be completed by late 2018, followed by a final investment decision. Pembina and Kuwait's Petrochemical Industries Company K.S.C. ("PIC") are each 50 percent joint venture partners of CKPC.

Financing Activity

On March 9, 2018, Pembina closed its \$1 billion non-revolving term loan ("Term Loan") with certain existing lenders. The Term Loan has been used to partially repay existing amounts drawn under Pembina's \$2.5 billion revolving credit facility, thereby providing additional liquidity, flexibility and interest cost savings. The Term Loan has an initial term of three years and is pre-payable at the Company's option. The other terms and conditions of the Term Loan, including financial covenants, are substantially similar to Pembina's \$2.5 billion revolving credit facility. Concurrently, Pembina also completed an extension of its \$2.5 billion revolving credit facility, which now matures May 31, 2023.

On March 26, 2018, Pembina closed an offering of \$400 million of senior unsecured Series 10 medium-term notes (the "Series 10 Notes"). The Series 10 Notes have a fixed coupon of 4.02 percent per annum, paid semi-annually, and mature on March 27, 2028. Simultaneously, Pembina closed an offering of \$300 million of senior unsecured Series 11 medium-term notes (the "Series 11 Notes"). The Series 11 Notes have a fixed coupon of 4.75 percent per annum, paid semi-annually, and mature on March 26, 2048. The net proceeds will be used to repay short-term indebtedness of the Company under its credit facilities, as well as to fund Pembina's capital program and for general corporate purposes.

On March 29, 2018, Ruby Pipeline, L.L.C., in which Pembina owns a 50 percent preferred interest, amended the maturity date of its US\$203 million 364-Day Term Loan, originally maturing March 30, 2018, by one year to March 29, 2019. The Term Loan will continue to amortize at US\$15.6 million per quarter (US\$7.8 million per quarter net to Pembina), beginning March 30, 2018, until a final bullet payment of US\$141 million (US\$71 million net to Pembina) is payable on the amended maturity date.

Subsequent to quarter end on April 20, 2018 Veresen Midstream successfully amended and extended its Senior Secured Credit Facilities that were originally scheduled to mature on March 31, 2020. Under the term of the amendment and

extension reached with a syndicate of lenders, Veresen Midstream increased its borrowing capacity to \$200 million under the Revolving Credit Facility and to \$2,550 million of availability under the Term Loan A and used the proceeds to repay an existing US\$705 million Term Loan B on April 30, 2018. Other terms and conditions in the facilities were modified to reflect the operating nature of the business including modifying the covenant package and increasing the permitted distributions out of Veresen Midstream. The maturity date of the two debt facilities was extended to April 20, 2022.

Liquidity & Capital Resources

| <i>(\$ millions)</i> | March 31, 2018 (unaudited) | December 31, 2017 |
|--|-------------------------------|-------------------|
| Working capital ⁽¹⁾ | (56) | (128) |
| Variable rate debt ⁽²⁾ | | |
| Bank debt | 1,296 | 1,778 |
| Total variable rate debt outstanding (average of 2.6%) | 1,296 | 1,778 |
| Fixed rate debt ⁽²⁾ | | |
| Senior unsecured notes | 540 | 540 |
| Senior unsecured medium-term notes | 5,850 | 5,150 |
| Total fixed rate debt outstanding (average of 4.2%) | 6,390 | 5,690 |
| Convertible debentures ⁽²⁾ | 93 | 95 |
| Finance lease liability | 13 | 12 |
| Total debt and debentures outstanding | 7,792 | 7,575 |
| Cash and unutilized debt facilities | 2,583 | 1,063 |

⁽¹⁾ As at March 31, 2018, working capital includes \$254 million (December 31, 2017: \$256 million) associated with the current portion of loans and borrowings and convertible debentures.

⁽²⁾ Face value.

Pembina anticipates its cash flow from operating activities, the majority of which is derived from fee based contracts, will be more than sufficient to meet its short-term operating obligations and fund its targeted dividends. In the short term, Pembina expects to source funds required for capital projects and contributions to investments from cash, its credit facilities and by accessing the capital markets, as required. Based on its successful access to financing in the capital markets over the past several years, Pembina believes it should continue to have access to additional funds as required. Refer to "Risk Factors – Additional Financing and Capital Resources" in Pembina's MD&A for the year ended December 31, 2017 for more information. Management remains satisfied that the leverage employed in Pembina's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base.

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

Pembina's credit facilities consist of an unsecured \$2.5 billion (December 31, 2017: \$2.5 billion) revolving credit facility which includes a \$750 million accordion feature and matures in May 2023, an unsecured \$1.0 billion non-revolving term loan which matures in March 2021, and an operating facility of \$20 million (December 31, 2017: \$20 million) due in May 2018 and is typically renewed on an annual basis. The weighted average interest rate on Pembina's credit facilities as at March 31, 2018 was 2.6 percent (March 31, 2017 - 2.4 percent) There are no repayments due over the term of these facilities. As at March 31, 2018, Pembina had \$2.6 billion (December 31, 2017: \$1.1 billion) of cash and unutilized debt facilities. At March 31, 2018, Pembina had loans and borrowings (excluding amortization, letters of credit and finance lease liabilities) of \$7.8 billion (December 31, 2017: \$7.6 billion). Pembina also had an additional \$26 million (December 31, 2017: \$26 million) in letters of credit issued pursuant to separate credit facilities. Pembina is required to

meet certain specific and customary affirmative and negative financial covenants under its senior unsecured notes, medium-term notes and revolving credit and operating facilities, including a requirement to maintain certain financial ratios. Pembina is also subject to customary restrictions on its operations and activities under its notes and credit facilities, including restrictions on the granting of security, incurring indebtedness and the sale of its assets. Pembina's financial covenants include the following:

| Debt Instrument | Financial Covenant⁽¹⁾ | Ratio | Ratio at March 31, 2018 |
|---|---|---------------------------------|--------------------------------|
| Senior unsecured medium-term notes | Funded Debt to Capitalization | Maximum 0.70 | 0.35 |
| Revolving unsecured credit facility and non-revolving term loan | Debt to Capital EBITDA to senior interest coverage | Maximum 0.65 Minimum 2.5:1.0 | 0.35 7.7 |

⁽¹⁾ Terms as defined in relevant agreements.

In addition to the table above, Pembina has additional customary covenants on its other senior unsecured notes. Pembina was in compliance with all covenants under its notes and facilities as at March 31, 2018 (December 31, 2017: in compliance).

Pembina 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 to mitigate and reduce risk may include guarantees, letters of credit and cash. Letters of credit totaling \$106 million (December 31, 2017: \$110 million) were held at March 31, 2018 primarily in respect of customer trade receivables.

Credit Ratings

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

Pembina targets strong 'BBB' credit ratings. DBRS rates Pembina's senior unsecured notes and senior unsecured medium-term notes 'BBB' and Class A Preferred Shares Pfd-3. S&P's long-term corporate credit rating on Pembina is 'BBB' and its rating of the Class A preferred shares is P-3 (High).

Capital Expenditures

| | 3 Months Ended March 31 (unaudited) | |
|--|---|------------|
| (\$ millions) | 2018 | 2017 |
| Pipelines Division | 266 | 527 |
| Facilities Division | 38 | 177 |
| Marketing & New Ventures Division | 20 | |
| Corporate / Other Projects | | 5 |
| Total | 324 | 709 |
| Contributions to equity accounted investees ⁽²⁾ | 58 | |

⁽¹⁾ Financial results reported for all periods commencing on or after January 1, 2017 have been restated to reflect the Corporate Reorganization.

⁽²⁾ Contribution to Veresen Midstream.

For the three months ended March 31, 2018, capital expenditures were \$324 million compared to \$709 million during the same three-month period of 2017. Pipelines Division's capital expenditures were primarily incurred related to Pembina's ongoing pipeline expansion projects including costs for assets recently placed into service. Facilities Division's capital expenditures were largely to progress construction in the Duvernay region, the Burstall Ethane Storage and on the progression of the LPG export terminal in Prince Rupert.

Contractual Obligations at March 31, 2018

| (\$ millions) | Payments Due By Period | | | | |
|--|------------------------|---------------------|--------------|--------------|------------------|
| | Total | Less than 1 year | 1 – 3 years | 3 – 5 years | After 5 years |
| Contractual Obligations⁽⁵⁾ | | | | | |
| Leases and other ⁽¹⁾ | 719 | 113 | 205 | 174 | 227 |
| Loans and borrowings ⁽²⁾ | 11,135 | 416 | 2,279 | 1,455 | 6,985 |
| Convertible debentures ⁽²⁾ | 97 | 97 | | | |
| Construction commitments ⁽³⁾ | 1,304 | 934 | 39 | 18 | 313 |
| Advances to related parties ⁽⁴⁾ | 121 | 121 | | | |
| Total contractual obligations⁽²⁾ | 13,376 | 1,681 | 2,523 | 1,647 | 7,525 |

⁽¹⁾ Includes office space, vehicles and over 3,000 rail car leases (supporting future propane transportation in the Marketing Division). The Company has sublet office space and rail cars up to 2027 and has contracted sub-lease payments for a potential of \$87 million over the term.

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

⁽³⁾ Excluding significant projects that are awaiting regulatory approval at March 31, 2018 and for which Pembina is not committed to construct.

⁽⁴⁾ Commitments to advance \$121 million (US \$94 million) to the Company's jointly controlled investment, Ruby Pipeline Holding Company L.L.C.

⁽⁵⁾ Pembina enters into product purchase agreements and power purchase agreements to secure supply for future operations. Purchase prices of both NGL and power are dependent on current market prices. Volumes and prices for NGL and power contracts cannot be reasonably determined and therefore an amount has not been included in the contractual obligations schedule. Product purchase agreements range from one to ten years and involve the purchase of NGL products from producers. Assuming product is available, Pembina has secured between 51 and 72 mtpd each year up to and including 2025. Power purchase agreements range from one to 25 years and involve the purchase of power from electrical service providers. The Company has secured between 9 and 64 megawatts per day each year up to and including 2042.

Pembina is, subject to certain conditions, contractually committed to the construction and operation of the Kaybob/Duvernay II, Phase IV and V expansions, Burstall storage, as well as certain pipeline connections and laterals. Additional commitments exist in relation to assets recently brought into service and other corporate infrastructure. See "Forward-Looking Statements & Information" and "Liquidity & Capital Resources".

Dividends

Common Share Dividends

Common share dividends are payable if, as, and when declared by Pembina's Board of Directors. The amount and frequency of dividends declared and payable is at the discretion of the Board of Directors, which considers earnings, cash

flow, capital requirements, the financial condition of Pembina and other relevant factors when making its dividend determination.

On May 3, 2018, Pembina's Board of Directors approved a 5.6 percent increase in its monthly common share dividend rate (from \$0.18 per common share to \$0.19 per common share), commencing with the dividend paid on June 15, 2018.

Preferred Share Dividends

The holders of Pembina's class A preferred shares are entitled to receive fixed cumulative dividends. Dividends on the Series 1, 3, 5, 7, 9, 11, 13 and 21 preferred shares are payable quarterly on the 1st day of March, June, September and December, if, as and when declared by the Board of Directors of Pembina, for the initial fixed-rate period for each series of preferred share. Dividends on the preferred shares Series 15, 17 and 19 are payable on the last day of March, June, September and December in each year, if, as and when declared by the Board of Directors.

Related Party Transactions

During the first quarter ended March 31, 2018, Pembina advanced \$10 million in funds to its jointly controlled investment in CKPC. In addition, during the first quarter ended March 31, 2018, Pembina advanced US\$8 million to its jointly controlled investment in Ruby Pipeline Holding Company L.L.C., and has additional commitments to advance US\$94 million to the same related party by March 29, 2019.

For the three months ended March 31, 2018, Pembina had no other transactions with related parties as defined in International Accounting Standard 24 – *Related Party Disclosures*, except those pertaining to contributions to Pembina's defined benefit pension plan and remuneration of key management personnel, including the Board of Directors, in the ordinary course of their employment or directorship agreements.

Critical Accounting Judgments and Estimates

Critical accounting judgments and estimates used in preparing the Interim Financial Statements are described in Pembina's consolidated financial statements and MD&A for the year ending December 31, 2017. The preparation of Consolidated Financial Statements in conformity with IFRS requires management to make both judgments and estimates that could materially affect the amounts recognized in the financial statements. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. Other than accounting estimates and judgments made in connection with the adoption of IFRS 15, there have been no material changes to Pembina's critical accounting estimates and judgments during the three months ended March 31, 2018.

Changes in Accounting Policies

New standards adopted in 2018

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

The Company has retrospectively adopted IFRS 15 Revenue from Contracts with Customers effective January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

a. Transition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized, and has replaced IAS 18 Revenue and related interpretations. The Company adopted IFRS 15 at the date of initial application of January 1, 2018, and has applied IFRS 15 retrospectively into 2017, restating the reported comparative period. In determining the restated values, the Company used the practical expedient not to restate contracts that began and ended in the same annual reporting period. No significant impact to the financial statements was identified as a result of the practical expedient applied on transition.

b. Financial Statement Impacts

An opening Statement of Financial Position at January 1, 2017 has not been presented as the impact of the adoption of IFRS 15 on the opening Statement of Financial Position is immaterial.

The following tables presents the impact of adopting IFRS 15 on the Company's Consolidated Statement of Financial Position, Condensed Consolidated Interim Statement of Earnings and Other Comprehensive Income and the Condensed Consolidated Interim Statement of Cash Flows for the three-month period ended March 31, 2017 for each of the line items affected.

i. Consolidated Statement of Financial Position

| December 31, 2017 (\$ millions) | Previously Reported | Adjustments | Restated |
|--|---------------------|-------------|----------|
| Trade payables and accrued liabilities | 713 | (36) | 677 |
| Contract liabilities | | 44 | 44 |
| Deficit | (2,075) | (8) | (2,083) |

ii. Condensed Consolidated Interim Statement of Earnings and Other Comprehensive Income

| 3 Months Ended March 31, 2017 (\$ millions) | Previously Reported | Adjustments | Restated |
|---|---------------------|-------------|----------|
| Revenue | 1,485 | (5) | 1,480 |
| Earnings before Income tax | 294 | (5) | 289 |
| Earnings attributable to shareholders | 215 | (5) | 210 |

iii. Condensed Consolidated Interim Statement of Cash Flows

| 3 Months Ended March 31, 2017 (\$ millions) | Previously Reported | Adjustments | Restated |
|---|---------------------|-------------|------------|
| Cash provided by (used in) | | | |
| Operating activities | | | |
| Earnings | 215 | (5) | 210 |
| Payments received & deferred | 6 | 5 | 11 |
| Cash flow from operating activities | 326 | | 326 |

c. Accounting Policies

The details of significant accounting policies under IFRS 15 and the nature of the changes to previous accounting policies under IAS 18 are outlined below.

Take-or-Pay

The Company provides transportation, gas processing, fractionation, terminalling, and storage services under take-or-pay contracts. In a take-or-pay contract, the Company is entitled to a minimum fee for the firm service promised to a customer over the contract period, regardless of actual volumes transported, processed, or stored. This minimum fee can be represented as a set fee for an annual minimum volume, or an annual minimum revenue requirement. In addition, these contracts may include variable consideration for operating costs that are flow through to the customer.

The Company satisfies its performance obligations and recognizes revenue for services under take-or-pay commitments when volumes are transported, processed, or stored. Make-up rights may arise when a customer does not fulfill their minimum volume commitment in a certain period, but is allowed to use the delivery of future volumes to meet this commitment. These make-up rights are subject to expiry and have varying conditions

associated with them. Under IFRS 15, when contract terms allow a customer to exercise their make-up rights using firm volume commitments, revenue is not recognized until these make-up rights are used, expire, or management determines that it is remote that they will be utilized. For contracts where no make-up rights exist, revenue is recognized to take-or-pay levels once Pembina has an enforceable right to payment for the take-or-pay volumes. Make-up rights generally expire within a contract year, and the majority of the related contract years follow the calendar year.

Under the previously utilized IAS 18, revenue was recognized based on capacity provided under contracted firm service rather than volumes transported, processed, or stored. This resulted in revenue being recognized to take-or-pay levels once firm service had been provided for all contracts. As a result of IFRS 15 adoption, when customers are transporting, processing, or storing volumes below their take-or-pay commitments early in a contract year, and the customer has the right to exercise their make-up rights against future firm volume commitments, there will be a change to the timing of revenue recognition. In these instances, there will be a deferral of revenue in early quarters of the year, with subsequent recognition occurring in later quarters, once the customer has used its make-up rights or it is determined to be remote that a customer will use them. The change is not currently expected to have a significant impact on annual revenue recognition as the majority of related contracts have make-up rights that expire within a given calendar year and has no impact on cash flows. Where the Company has a right to invoice to take-or-pay levels throughout the contract year, revenue is deferred and a contract liability is recorded for volumes invoiced.

For certain declining rate base cost of service agreements, revenue is recognized using the practical expedient to recognize revenue in an amount equal to the Company's right to invoice as the consideration the Company is entitled to invoice in each period is representative of the value provided to the customer. There is no change to how revenue is recognized for these cost of service contracts under IFRS 15 compared to IAS 18.

When up-front payments or non-cash consideration is received in exchange for future services to be performed, revenue is deferred as a contract liability and recognized over the period the performance obligation is expected to be satisfied. Non-cash consideration is measured at the fair value of the non-cash consideration received. There is no change to how revenue is recognized for these contracts under IFRS 15 compared to IAS 18.

Fee-for-Service

Fee-for-service revenue includes firm contracted revenue that is not subject to take-or-pay commitments and interruptible revenue. The Company satisfies its performance obligations for transportation, gas processing, fractionation, terminalling, and storage as volumes of product are transported, processed, or stored. Revenue is based on a contracted fee and consideration is variable with respect to volumes. Payment is due in the month following the Company's provision of service.

There is no change to how revenue is recognized for fee-for-service revenue under IFRS 15 compared to IAS 18.

Product Sales

The Company satisfies its performance obligation on product sales at the time legal title to the product is transferred to the customer. Certain commodity buy/sell arrangements where control of the product has not transferred to the Company are recognized on a net basis in revenue.

For product sales, revenue is recognized using the practical expedient to recognize revenue in an amount equal to the Company's right to invoice as the consideration the Company is entitled to invoice in each period is representative of the value provided to the customer. There is no change to how revenue is recognized for these product sales under IFRS 15 compared to IAS 18.

d. Use of estimates and judgments

Judgments

The pattern of revenue recognition is impacted by management's judgments as to the nature of the Company's performance obligations, the amount of consideration allocated to performance obligations that are not sold on a stand-alone basis, the valuation of material rights and the timing of when those performance obligations have been satisfied.

Estimates

In estimating the contract value, management makes assessments as to whether variable consideration is constrained or not reasonably estimable, such that an amount or portion of an amount cannot be included in the estimate of the contract value. In addition, management estimates of the likelihood of a customer's ability to use outstanding make-up rights may impact the timing of revenue recognition.

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, 2018. These standards have not been applied in preparing these Interim Financial Statements. Those which may be relevant to Pembina are described below:

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.

Controls and Procedures

Changes in Internal Control over Financial Reporting

Pembina's Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The objective of this instrument is to improve the quality, reliability and transparency of information that is filed or submitted under securities legislation.

The President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, with the assistance of Pembina employees, DC&P and ICFR to provide reasonable assurance that material information relating to Pembina's business is made known to them, is reported on a timely basis, financial reporting is reliable, and financial statements prepared for external purposes are in accordance with GAAP. Management, including the Company's President and CEO and CFO, evaluated the effectiveness of Pembina's disclosure controls and procedures as at March 31, 2018, as required by the Canadian securities regulatory authorities and by the U.S. Securities and Exchange Commission, and concluded that its DC&P are effective.

The Company's internal controls over financial reporting following the Company's acquisition on 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 systems, there has been no change in the Company's internal controls over financial reporting that occurred during the first three months of 2018 that materially affected, or are reasonably likely to materially affect, Pembina's internal controls over financial reporting.

Consistent with the evaluation at December 31, 2017, the scope of the evaluation does not include controls over financial reporting of the assets acquired through the Veresen Acquisition, which the Company acquired on October 2, 2017. Veresen's assets and revenues represented approximately 30 percent and nil percent, respectively of the Company's total assets and revenue as at March 31, 2018. Share of profit from Veresen's equity accounted investees amounted to \$75 million in the first quarter of 2018.

Risk Factors

Management has identified the primary risk factors that could potentially have a material impact on the financial results and operations of Pembina. Such risk factors are presented in Pembina's MD&A and Pembina's Annual Information Form ("AIF") for the year ended December 31, 2017. Pembina's MD&A and AIF are available at www.pembina.com, in Canada under Pembina's company profile on www.sedar.com and in the U.S. under the Company's profile at www.sec.gov.

Selected Quarterly Operating Information

| <i>(mboe/d unless stated otherwise)</i> | 2018 | 2017 ⁽³⁾ | | | |
|--|--------------|---------------------|--------------|--------------|--------------|
| | Q1 | Q4 | Q3 | Q2 | Q1 |
| Average volume ⁽¹⁾⁽²⁾ | | | | | |
| Pipelines Division | | | | | |
| Conventional Pipelines revenue volumes | 766 | 796 | 715 | 620 | 617 |
| Transmission Pipelines revenue volumes net | 584 | 567 | 38 | 36 | 35 |
| Oil Sands Pipelines revenue volumes | 1,074 | 1,087 | 1,087 | 1,015 | 1,015 |
| Facilities Division | | | | | |
| Gas Services revenue volumes net | 636 | 606 | 486 | 485 | 545 |
| NGL Services revenue volumes net | 206 | 194 | 188 | 133 | 159 |
| Total | 3,266 | 3,250 | 2,514 | 2,289 | 2,371 |

⁽¹⁾ Pipelines and Facilities Division are revenue volumes which are physical plus volumes recognized from take-or-pay commitments. Volumes are stated in mboe/d, with natural gas volumes converted to mboe/d from MMcf/d at a 6:1 ratio.

⁽²⁾ Includes Pembina's proportionate share of results from equity accounted investees.

⁽³⁾ 2017 volumes have been restated for the Corporate Reorganization and to exclude compression volumes relating to Veresen Midstream. 2016 volumes have been omitted because they have not been restated for the Corporate Reorganization.

Quarterly Financial Information

| <i>(\$ millions, except where noted)</i> | 2018 | 2017 | | | | 2016 ⁽²⁾ | | |
|--|-------|-------|-------|-------|-------|---------------------|------|-------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue | 1,837 | 1,716 | 1,046 | 1,158 | 1,480 | 1,251 | 970 | 1,027 |
| Net Revenue ⁽¹⁾ | 719 | 709 | 537 | 443 | 549 | 514 | 427 | 429 |
| Operating expenses | 150 | 130 | 112 | 101 | 107 | 123 | 109 | 93 |
| Realized loss (gain) on commodity-related derivative financial instruments | 18 | 42 | 17 | (5) | 40 | 15 | 1 | 9 |
| Share of profit of investments in equity accounted investees | 76 | 116 | | | | | | |
| Gross profit | 568 | 555 | 275 | 268 | 376 | 270 | 246 | 248 |
| Earnings for the period | 330 | 445 | 112 | 116 | 210 | 131 | 120 | 113 |
| Earnings per common share – basic (dollars) | 0.59 | 0.83 | 0.23 | 0.24 | 0.48 | 0.29 | 0.25 | 0.25 |
| Earnings per common share – diluted (dollars) | 0.59 | 0.83 | 0.23 | 0.24 | 0.48 | 0.28 | 0.25 | 0.25 |
| Cash flow from operating activities | 498 | 523 | 302 | 362 | 326 | 286 | 247 | 273 |
| Cash flow from operating activities per common share – basic (dollars) ⁽¹⁾ | 0.99 | 1.04 | 0.75 | 0.90 | 0.82 | 0.73 | 0.63 | 0.70 |
| Adjusted cash flow from operating activities ⁽¹⁾ | 530 | 499 | 314 | 275 | 308 | 292 | 250 | 235 |
| Adjusted cash flow from operating activities per common share – basic ⁽¹⁾ (dollars) | 1.05 | 0.99 | 0.78 | 0.68 | 0.77 | 0.74 | 0.64 | 0.60 |
| Common shares outstanding (millions): | | | | | | | | |
| Weighted average – basic | 503 | 502 | 403 | 401 | 398 | 395 | 392 | 389 |
| Weighted average – diluted | 508 | 507 | 404 | 403 | 400 | 397 | 393 | 390 |
| End of period | 503 | 503 | 403 | 403 | 400 | 397 | 394 | 391 |
| Common share dividends declared | 272 | 272 | 205 | 205 | 191 | 190 | 188 | 187 |
| Dividends per common share | 0.54 | 0.54 | 0.51 | 0.51 | 0.48 | 0.48 | 0.48 | 0.48 |
| Preferred share dividends declared | 30 | 26 | 19 | 19 | 19 | 19 | 20 | 16 |
| Capital Expenditures | 324 | 314 | 341 | 475 | 709 | 453 | 537 | 380 |
| Contributions to equity accounted investees | 58 | 6 | | 1 | | | | |
| Proportionately Consolidated Financial Overview | | | | | | | | |
| Operating margin ⁽¹⁾ | 757 | 749 | 414 | 352 | 407 | 379 | 320 | 331 |
| Adjusted EBITDA ⁽¹⁾ | 688 | 674 | 370 | 295 | 358 | 342 | 287 | 291 |

⁽¹⁾ Refer to "Non-GAAP Measures".

⁽²⁾ The impacts of IFRS 15 adoption have not been reflected in any of quarterly figures presented above for 2016. See "Changes in Accounting Policies".

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

- Acquisition of Veresen on October 2, 2017;
- Increased production in key operating areas and resource plays within the WCSB (Deep Basin, Montney and Duvernay) which has supported increased revenue and sales volumes on Pembina's existing assets in the Pipelines and Facilities Divisions;
- New large-scale growth projects across Pembina's business being placed into service and the acquisition of the Kakwa River facility (April 2016);
- A modest commodity market recovery through mid-2016 and 2017;
- Lower income tax expense following the enactment of U.S. Tax Reform legislation in December 2017;
- Higher net finance costs associated with debt related to acquisitions and growth projects;

- Increased common shares outstanding and common share dividends due to: the DRIP, debenture conversions, common share issuance, increases in the common share dividend rate; and
- Increased preferred share dividends due to additional preferred shares issued.

Additional Information

Additional information about Pembina filed with Canadian and U.S. securities commissions, including quarterly and annual reports, Annual Information Forms (filed with the U.S. Securities and Exchange Commission under Form 40-F), Management Information Circulars and financial statements, can be found online at www.sedar.com, www.sec.gov and through Pembina's website at www.pembina.com. Information contained in, or otherwise accessible through, Pembina's website or other websites, though referenced herein, is not incorporated by reference herein unless otherwise specifically indicated.

Non-GAAP Measures

Throughout this MD&A, Pembina has used the following terms that are not defined by GAAP but are used by management to evaluate the performance of Pembina and its businesses. Since non-GAAP measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies, securities regulations require that non-GAAP measures are clearly defined, qualified and reconciled to their nearest GAAP measure. These non-GAAP measures are calculated and disclosed on a consistent basis from period to period. Comparative figures have been restated for the adjustments made to the definitions.

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

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

Non-GAAP Proportionate Consolidation of Investments in Equity Accounted Investees Results

In accordance with IFRS, Pembina's jointly controlled investments are accounted for using equity accounting. Under equity accounting, the assets and liabilities of the investment are net into a single line item on the Consolidated Statement of Financial Position, Investments in Equity Accounted Investees. Net earnings from Investments in Equity Accounted Investees are recognized in a single line item in the Consolidated Statement of Earnings and Comprehensive Earnings, Share of Profit of Investments in Equity Accounted Investees. Cash contributions and distributions from Investments in Equity Accounted Investees represent Pembina's proportionate share paid and received in the period to and from the Investments in Equity Accounted Investees. To assist the readers understanding and evaluate the performance of these investments, Pembina is supplementing the IFRS disclosure with non-GAAP proportionate consolidation of Pembina's interest in the Investments in Equity Accounted Investees. Pembina's proportionate interest in equity accounted investees has been included in operating margin and Adjusted EBITDA.

Net revenue

Net revenue is a non-GAAP financial measure which is defined as total revenue less cost of goods sold including product purchases. Management believes that net revenue provides investors with a single measure to indicate the margin on

sales before non-product operating expenses that is comparable between periods. Management utilizes net revenue to compare consecutive results, particularly in the Marketing & New Ventures Division, to aggregate revenue generated by each of the Company's Divisions and to set comparable objectives.

| | 3 Months Ended | |
|---|-------------------------|-------|
| | March 31 (unaudited) | |
| <i>(\$ millions)</i> | 2018 | 2017 |
| Revenue | 1,837 | 1,480 |
| Cost of goods sold, including product purchases | 1,118 | 931 |
| Net revenue | 719 | 549 |

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA")

Adjusted EBITDA is a non-GAAP measure and is calculated as earnings for the year before net finance costs, income taxes, depreciation and amortization (included in operations and general and administrative expense) and unrealized gains or losses on commodity-related derivative financial instruments. The exclusion of unrealized gains or losses on commodity-related derivative financial instruments eliminates the non-cash impact of such gains or losses.

Adjusted EBITDA also includes adjustments to earnings for loss (gain) on disposal of assets, transaction costs incurred in respect of acquisitions, impairment charges or reversals and write-downs in respect of goodwill, intangible assets and property, plant and equipment, and certain non-cash provisions. The adjustments made to earnings are also made to share of profit from investments in equity accounted investees. In addition, Pembina's proportionate share of results from investments in equity accounted investees with a preferred interest is presented in Adjusted EBITDA as a 50 percent common interest. These additional adjustments are made to exclude various non-cash and other items that are not reflective of ongoing operations. Management believes that Adjusted EBITDA provides useful information to investors as it is an important indicator of an issuer's ability to generate liquidity through cash flow from operating activities and equity investees. Adjusted EBITDA is also used by investors and analysts for assessing financial performance and for the purpose of valuing an issuer, including calculating financial and leverage ratios. Management utilizes Adjusted EBITDA to set objectives and as a key performance indicator of the Company's success. Pembina presents Adjusted EBITDA as management believes it is a measure frequently used by analysts, investors and other stakeholders in evaluating the Company's financial performance.

| | 3 Months Ended | |
|--|-------------------------|------|
| | March 31 (unaudited) | |
| <i>(\$ millions, except per share amounts)</i> | 2018 | 2017 |
| Earnings attributable to shareholders | 330 | 210 |
| Adjustments to share of profit of investments in equity accounted investees and other | 115 | 4 |
| Net finance costs | 59 | 30 |
| Income tax expense | 115 | 79 |
| Depreciation and amortization | 97 | 84 |
| Unrealized gain on commodity-related derivative financial instruments | (30) | (53) |
| Impairment charges or reversals and write-downs in respect of goodwill, intangible assets and property, plant and equipment, and non-cash provisions | | 4 |
| Transaction costs incurred in respect of acquisitions | 2 | |
| Adjusted EBITDA | 688 | 358 |
| Adjusted EBITDA per common share – basic <i>(dollars)</i> | 1.37 | 0.90 |

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

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

| | 3 Months Ended March 31 (unaudited) | |
|--|--|------|
| <i>(\$ millions, except per share amounts)</i> | 2018 | 2017 |
| Cash flow from operating activities | 498 | 326 |
| Cash flow from operating activities per common share – basic (<i>dollars</i>) | 0.99 | 0.82 |
| Add (deduct): | | |
| Change in non-cash operating working capital | 40 | (9) |
| Current tax expense | (22) | (12) |
| Taxes paid | 20 | 13 |
| Accrued share-based payments | (8) | (13) |
| Share-based payments | 32 | 22 |
| Preferred share dividends declared | (30) | (19) |
| Adjusted cash flow from operating activities | 530 | 308 |
| Adjusted cash flow from operating activities per common share – basic (<i>dollars</i>) | 1.05 | 0.77 |

Operating margin

Operating margin is a non-GAAP measure which is defined as gross profit on a proportionately consolidated basis before depreciation and amortization included in operations and unrealized gain/loss on commodity-related derivative financial instruments from assets directly held and proportionate interest in operating margin from investments in equity accounted investees. Pembina's proportionate share of results from investments in equity accounted investees with a preferred distribution is presented in operating margin as a 50 percent common interest. Management believes that operating margin provides useful information to investors for assessing the financial performance of the Company's operations and equity investments. Management utilizes operating margin in setting objectives and views it as a key performance indicator of the Company's success. For more information see "Investments in Equity Accounted Investees" contained in the Unaudited Supplementary Information contained in the Company's Press Release dated May 3, 2018.

Reconciliation of operating margin to gross profit:

| (\$ millions) | 3 Months Ended March 31 (unaudited) | |
|--|---|-------|
| | 2018 | 2017 |
| Revenue | 1,837 | 1,480 |
| Cost of sales (excluding depreciation and amortization included in operations) | | |
| Operating expenses | 150 | 107 |
| Cost of goods sold, including product purchases | 1,118 | 931 |
| Realized loss on commodity-related derivative financial instruments | 18 | 40 |
| Proportionate operating margin from Investments in Equity Accounted Investees ⁽¹⁾ | 206 | 5 |
| Operating margin | 757 | 407 |
| Depreciation and amortization included in operations | (89) | (79) |
| Unrealized gain on commodity-related derivative financial instruments | 30 | 53 |
| Share of profit of investments in equity accounted investees | 76 | |
| Proportionate operating margin from Investments in Equity Accounted Investees ⁽¹⁾ | (206) | (5) |
| Gross profit | 568 | 376 |

⁽¹⁾ Excludes depreciation and amortization included in earnings from investments in equity accounted investees of \$83 million, general and administrative expenses of \$15 million, finance costs of \$42 million and share of earnings in excess of equity of \$10 million for a total equity income of \$76 million.

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

| Measurement | | Other | |
|-------------|--|-------------|--|
| mbbls | thousands of barrels | B.C. | British Columbia |
| mbpd | thousands of barrels per day | DRIP | Premium Dividend™ and Dividend Reinvestment Plan |
| mmbpd | millions of barrels per day | IFRS | International Financial Reporting Standards |
| mmbbls | millions of barrels | NGL | Natural gas liquids |
| mboe/d | thousands of barrels of oil equivalent per day | U.S. | United States |
| MMcf/d | millions of cubic feet per day | WCSB | Western Canadian Sedimentary Basin |
| bcf/d | billions of cubic feet per day | deep cut | Ethane-plus capacity extraction gas processing capabilities |
| km | kilometre | shallow cut | Sweet gas processing with propane and/or condensate-plus extraction capabilities |

Investments in Equity Accounted Investees:

| | |
|-------------------|---|
| Alliance | 50 percent interest in the Alliance Pipeline; |
| Ruby | 50 percent convertible preferred interest in the Ruby Pipeline which entitles Pembina to a US\$91 million distribution per year; |
| Veresen Midstream | 46.2 percent interest (as of March 31, 2018) in Veresen Midstream, which owns assets in western Canada serving the Montney geological play in northwestern Alberta and northeastern B.C. including gas processing plants and gas gathering pipelines and compression; |
| Aux Sable | An ownership interest in Aux Sable (approximately 42.7 percent in Aux Sable U.S. and 50 percent in Aux Sable Canada), which includes an NGL fractionation facility and gas processing capacity near Chicago, Illinois and other natural gas and NGL processing facilities, logistics and distribution assets in the U.S. and Canada, as well as transportation contracts on Alliance; |
| CKPC | 50 percent interest in Canadian Kuwait Petrochemical Corporation ("CKPC"); |
| Fort Corp | 50 percent interest in Fort Saskatchewan Ethylene Storage Limited Partnership and Fort Saskatchewan Ethylene Corporation; and |
| Grand Valley | 75 percent jointly controlled interest in Grand Valley 1 Limited Partnership ("Grand Valley"). |

Readers are referred to the Annual Information Form dated February 22, 2018 on www.sedar.com for Project and Asset level descriptions.

Forward-Looking Statements & Information

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

By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Pembina believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of the MD&A.

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

- the future levels and sustainability of cash dividends that Pembina intends to pay to its shareholders, the dividend payment date and the tax treatment thereof;
- planning, construction, capital expenditure estimates, schedules, regulatory and environmental applications and anticipated approvals, expected capacity, incremental volumes, in-service dates, rights, activities, benefits and operations with respect to new construction of, or expansions on existing, pipelines, gas services facilities, fractionation facilities, terminalling, storage and hub facilities and other facilities or energy infrastructure, as well as the impact of the Company's new projects on its future financial performance;
- the potential future benefits and impacts of the acquisition of Veresen Inc. including the timing of such benefits;
- anticipated synergies between assets under development, assets being acquired and existing assets of the Company;
- pipeline, processing, fractionation and storage facility and system operations and throughput levels;
- treatment under governmental regulatory regimes in Canada and the U.S. including taxes and tax regimes, environmental and greenhouse gas regulations and related abandonment and reclamation obligations, and Aboriginal, landowner and other stakeholder consultation requirements;
- Pembina's estimates of and strategy for payment of future abandonment costs and decommissioning obligations, and deferred tax liability;
- Pembina's strategy and the development and expected timing of new business initiatives and growth opportunities and the impact thereof;
- increased throughput potential, processing capacity and fractionation capacity due to increased oil and gas industry activity and new connections and other initiatives on Pembina's pipelines and at Pembina's facilities;
- expected future cash flows and the sufficiency thereof, financial strength, sources of and access to funds at attractive rates, future contractual obligations, future financing options, future renewal of credit facilities, availability of capital to fund growth plans, operating obligations and dividends and the use of proceeds from financings;
- tolls and tariffs and processing, transportation, fractionation, storage and services commitments and contracts;
- operating risks (including the amount of future liabilities related to pipelines spills and other environmental incidents) and related insurance coverage and inspection and integrity programs;
- the adoption and impact of new accounting standards;
- inventory and pricing in North American liquids market;
- the impact of the current commodity price environment on Pembina; and
- competitive conditions and Pembina's ability to position itself competitively in the industry.

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

- oil and gas industry exploration and development activity levels and the geographic region of such activity;
- the success of Pembina's operations;
- prevailing commodity prices, interest rates and exchange rates and the ability of Pembina to maintain current credit ratings;
- the availability of capital to fund future capital requirements relating to existing assets and projects;
- expectations regarding pension plan;

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

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

- the regulatory environment and decisions and Aboriginal and landowner consultation requirements;
 - the impact of competitive entities and pricing;
 - labour and material shortages;
 - the failure to realize the anticipated benefits of the Acquisition following closing due to the factors set out herein, integration issues or otherwise;
 - reliance on key relationships, joint venture partners, and agreements and the outcome of stakeholder engagement;
 - the strength and operations of the oil and natural gas production industry and related commodity prices;
 - non-performance or default by counterparties to agreements which Pembina or one or more of its subsidiaries has entered into in respect of its business;
 - actions by joint venture partners or other partners which hold interests in certain of Pembina's assets.
 - actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates, climate change initiatives or policies or increased environmental regulation;
 - fluctuations in operating results;
 - adverse general economic and market conditions in Canada, North America and elsewhere, including changes, or prolonged weakness, as applicable, in interest rates, foreign currency exchange rates, commodity prices, supply/demand trends and overall industry activity levels;
 - constraints on, or the unavailability of adequate infrastructure;
 - changes in the political environment, in North America and elsewhere, and public opinion;
 - ability to access various sources of debt and equity capital;
 - changes in credit ratings;
 - technology and security risks;
 - natural catastrophe; and
 - the other factors discussed under "Risk Factors" herein and in Pembina's AIF for the year ended December 31, 2017. Pembina's AIF is available at www.pembina.com and in Canada under Pembina's company profile on www.sedar.com and in the U.S. on the Company's profile at www.sec.gov.
- These factors should not be construed as exhaustive. Unless required by law, Pembina does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements contained herein are expressly qualified by this cautionary statement.