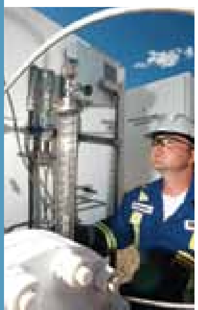
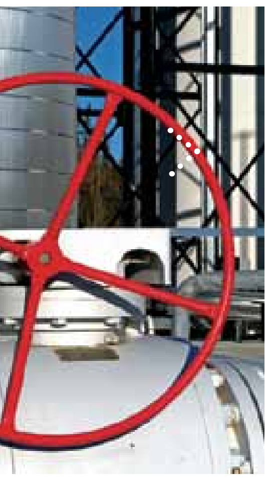


PEMBINA PIPELINE CORPORATION

ANNUAL REPORT

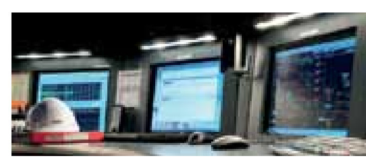
2010

ABOUT PEMBINA



Pembina Pipeline Corporation is a diversified energy infrastructure service company that operates in western Canada. Pembina's conventional pipelines transport approximately half of Alberta's conventional crude oil and about 20 percent of the natural gas liquids produced in western Canada. The company's oil sands pipelines provide approximately 40 percent of total synthetic crude oil take-away capacity from the Athabasca oil sands while its midstream operations – terminals, storage and marketing services – and natural gas gathering and processing facilities provide reliable, responsible and competitive services to producers.

Pembina's common shares and convertible debentures are traded on the Toronto Stock Exchange (TSX): PPL, PPL.DB.C. From September 4, 1997 to September 30, 2010, Pembina was wholly owned by Pembina Pipeline Income Fund whose trust units (PIF.UN) and convertible debentures (PIF.DB.B, PIF.DB.A) were traded on the TSX.



FORWARD-LOOKING STATEMENTS & INFORMATION AND GAAP

This annual report includes forward-looking statements and information that are based on Pembina's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. Actual results may differ materially from those expressed or implied by the forward-looking statements & information. See page 41. This report also refers to financial measures not defined by Canadian generally accepted accounting principles (GAAP) including references to net revenue, net operating income and EBITDA (earnings before income taxes, depreciation and amortization). For more information about these non-GAAP measures, see page 39.

FINANCIAL REVIEW

Year ended December 31 (in millions of dollars, except where noted)	2010	2009	2008	2007	2006
Revenue	**1,255.1**	811.8	674.8	504.8	340.9
Net revenue (1)	**519.9**	497.4	453.9	389.7	335.8
Net operating income (1)	**359.8**	338.2	303.0	260.1	215.2
EBITDA (1)	**315.8**	279.9	287.9 (2)	220.5	184.2
Net earnings	**186.7**	162.1	161.8 (2)	142.3	88.9
Net earnings per share – basic (dollars)	**1.14**	1.09	1.21 (2)	1.09	0.73
Cash flow from operating activities	**255.1**	224.6	219.9	189.5	143.8
Dividends	**255.2**	232.3	198.8	178.9	142.3
Dividends per share (dollars)	**1.56**	1.56	1.49	1.37	1.17
Total enterprise value (1) (billions of dollars)	**4.9**	4.0	3.0	3.2	2.7
Total long-term debt to enterprise value (1) (percent)	**26.9%**	30.1%	32.1%	26.3%	23.7%
Throughput (thousands of barrels per day)					
Conventional Pipelines (average daily)	**374.0**	393.3	439.2	447.1	448.5
Oil Sands & Heavy Oil (contracted capacity)	**775.0**	775.0	775.0	525.0	389.0
Throughput and contracted capacity	**1,149.0**	1,168.3	1,214.2	972.1	837.5
Average Gas Services processing volume (3) (mmcf/d net to Pembina)	**220.5**	197.4			

(1) Refer to "Non-GAAP Measures" on page 39.
(2) Including a one-time gain on sale of linefill for $42.9 million ($29.9 million after tax).
(3) Pembina acquired the Cutbank Complex in June 2009. As a result, 2009 data reflects only seven months of results.

55% INCREASE IN NET REVENUE*

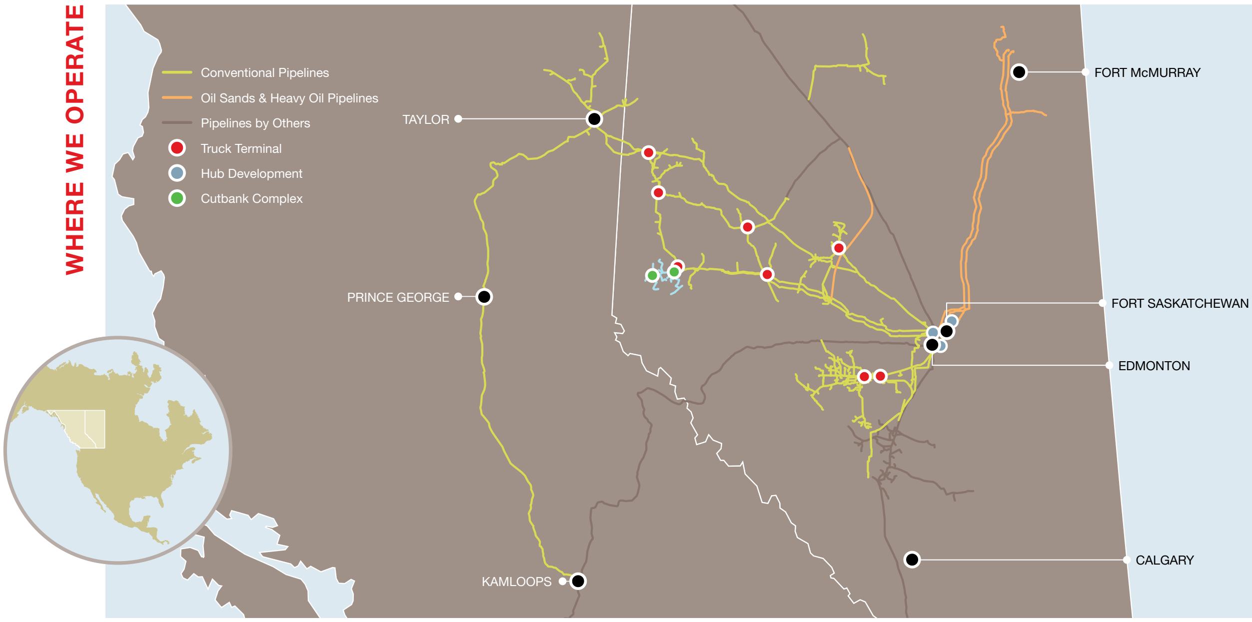
67% INCREASE IN NET OPERATING INCOME*

110% INCREASE IN NET EARNINGS*

*Cumulative for years ended 2006 to 2010

BRANCHING OUT

WHERE WE OPERATE



OUR BUSINESSES

WHAT WE DO

Conventional Pipelines

Pembina's owned and operated crude oil and natural gas liquids (NGL) pipelines form a 7,500 kilometre network that extends across much of Alberta and British Columbia. We transport approximately half of Alberta's conventional crude oil production and about 20 percent of the NGL produced in western Canada.

Oil Sands & Heavy Oil

Pembina plays an important and growing role in supporting Alberta's oil sands industry, transporting crude oil from the Syncrude Canada Ltd. and Canadian Natural Resources Ltd. oil sands operations near Fort McMurray, Alberta to a transportation hub near Edmonton. Pembina also provides support to oil sands producers operating southwest of Fort McMurray. In all, Pembina has approximately 1,000 kilometres of oil sands pipeline infrastructure with about 30 percent of total take-away capacity from the Athabasca oil sands. Expansion of this infrastructure is currently underway with the construction of Pembina's Nipisi and Mitsue Pipeline projects (for more information, see page 17).

Midstream & Marketing

This business consists of wholly owned terminals, storage facilities and hub services located across our conventional pipeline systems as well as a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility and the Laglace Full Service Terminal. Pembina recently acquired a terminal storage facility strategically located in the Edmonton, Alberta area. This facility will be used to receive, aggregate and deliver product on behalf of our customers. By leveraging the purchase and sale of crude oil and NGL, this business has expanded the range of services we provide to customers while contributing to conventional pipeline throughputs.

Gas Services

Pembina's operations also include natural gas gathering and processing at our owned and operated Cutbank Complex. This facility consists of over 300 kilometres of gathering pipelines and three sweet gas processing plants with 360 million cubic feet per day (mmcf/d) of processing capacity (305 mmcf/d net to Pembina). These assets are directly connected, and deliver NGL, to Pembina's Peace Pipeline System and provide service to an active exploration and production area of the Deep Basin in the Western Canadian Sedimentary Basin.

DELIVERING SHAREHOLDER VALUE THROUGH GROWTH

For Pembina, 2010 was truly a pivotal year. Despite an economy still emerging from the effects of a global recession, Pembina made significant progress on a number of critical fronts and delivered record results once again. By focusing on strong operational performance, safety, environmental responsibility and prudent financial management, our businesses continued to deliver reliable and stable returns for investors. At the same time, we marked several important milestones on our long-term growth plans while completing the conversion of Pembina from an income trust to a corporation and preparing the company for new International Financial Reporting Standards (IFRS) taking effect in 2011.

2010 Performance

Pembina recorded revenues (net of product purchases) of $519.9 million, up from $497.4 million in 2009, while our annual net operating income increased to a record $359.8 million from $338.2 million. We realized an improvement of nearly 14 percent compared to 2009 in cash flow from operating activities, which enabled us to remain on track to deliver our current dividend of $1.56 per share per year through 2013.

Pembina's improved financial performance was due, in part, to a strong showing from our newest business. In its first full year of operation, Gas Services contributed $43.8 million to our net operating income. We achieved these results by providing customers with reliable and highly competitive services and embarked upon expanding our service offering to customers of the Cutbank Complex, while exercising diligent control over costs.

Similarly, our Conventional Pipelines business realized improved revenues despite reduced customer production levels due to weather and the sale of certain non-strategic assets. Actively managed operating costs also contributed greatly to the strong results from this business.

While Pembina's Midstream & Marketing business experienced tighter margins as a result of narrowing differentials, our Oil Sands & Heavy Oil business continued to generate steady and growing revenues – a positive indicator of the future, as Pembina will be playing an even bigger role in this sector following the expected completion in 2011 of two new pipeline projects to support Alberta's heavy oil industry.

Responsible Growth

Pembina's practice of utilizing existing infrastructure wherever possible allows us to keep capital costs down while mitigating the impact of development on lands, communities and the environment. This has been done wherever possible as we work to expand our network with our growth projects.

Pembina achieved several key milestones in 2010 as we continued to pursue our parallel path for success: generating reliable returns from existing operations while steadily building long-term shareholder value through responsible growth.

In June, Pembina received approval from Alberta's Energy Resources Conservation Board (ERCB) to construct the Nipisi and Mitsue Pipelines. The approvals were granted without a public hearing as all stakeholder objections had been resolved through the consultation process – demonstrating Pembina's commitment to working with our stakeholders in an open, respectful and proactive manner.

The Nipisi Pipeline, designed to initially transport 100,000 barrels per day (bpd) of diluted heavy oil, will originate north of Slave Lake, Alberta, and run south to Pembina's Judy Creek pump station where it will connect with our existing pipeline system that delivers products to the

Edmonton area. The Mitsue Pipeline is designed to transport approximately 22,000 bpd of condensate (a light hydrocarbon used to dilute heavy oil) from Whitecourt, Alberta, to producers operating north of Slave Lake.

Pembina expects the two pipeline projects to cost $440 million. Once fully operational, Pembina estimates the pipelines will contribute $45 million annually to net operating income.[1]

In 2010, Pembina moved to strengthen its newest business, Gas Services, by expanding extraction of NGL at our Cutbank Complex in response to strong demand for NGL, even during a period of relatively low natural gas prices. Following regulatory approval, we began construction of a new 14,400 bpd extraction plant. We expect the plant's capacity to be fully contracted when it begins service in mid-2011.

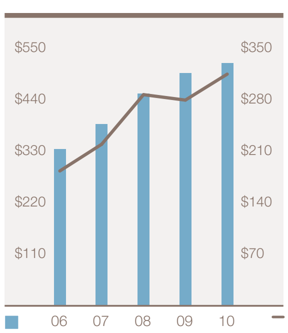
Pembina is also working to further enhance our competitive advantage in supporting expanded production from the Cardium oil formation. Pending regulatory approval, Pembina plans to spend $40 million over 18 months to strengthen the transportation service options on its Drayton Valley Pipeline system which provides service to one of the most active exploration and development areas in the Western Canadian Sedimentary Basin. As the leading provider of transportation and terminal services in the area, we expect our expansion plans to allow us to maintain this competitive edge.

Pembina's commitment to responsible growth is reflected in our 2011 capital spending plan. Of the $470 million capital budget, the majority is directed towards growth projects, with the remainder primarily invested in ensuring our existing businesses continue to operate safely, reliably and in a cost-effective manner. We expect the bulk of our 2011 investments to generate returns later this year as we take some of our key expansion projects to the commissioning stage during the first half of 2011.

Another 2010 milestone was the completion of the conversion of Pembina from an income trust fund to a corporation. As a result, Pembina expects to gain greater access to capital markets and enjoy enhanced liquidity which will provide greater flexibility to pursue growth and expansion. Conversion also supports Pembina's intention to maintain a highly competitive dividend.

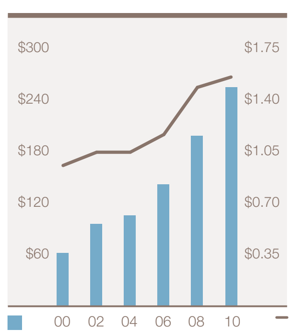
Pembina also prepared extensively for another kind of conversion process. Like other publicly-accountable Canadian enterprises, Pembina is required to adopt IFRS for interim and

Net Revenue & EBITDA [2]



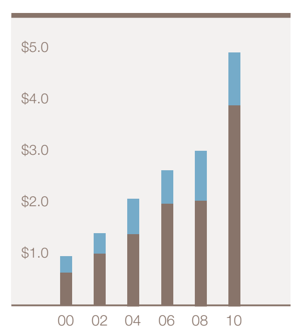
Net Revenue ($ millions)
EBITDA ($ millions) [3]

Dividends & Dividends per share



Dividends ($ millions)
Dividends per share ($ per share)

Total Enterprise Value [1]



Debt ($ billions)
Equity ($ billions)

(1) Based on Pembina's current assumptions, estimates, expectations and projections. Actual results may differ materially. See "Forward-Looking Statements & Information" on page 41 for more information.

(2) Refer to "Non-GAAP Measures" on page 39.

(3) EBITDA includes a one-time gain on sale of linefill of $42.9 million in 2008.

annual financial statements as of January 1, 2011. The aim of IFRS is to provide a single set of high-quality global accounting standards that will allow investors to make relevant comparisons of corporate performance and governance across a broad range of jurisdictions.

LOOKING AHEAD:

Strength in Business Diversity & Integration

Pembina will continue to realize staged, carefully managed growth supported by safe, reliable and environmentally responsible operations. Our four business units are capable of growing concurrently and collaboratively, and each has solid growth prospects for the future.

Also, with prudent financial management, Pembina enjoys a strong balance sheet with the ability to finance our near-term growth through undrawn credit facilities and cash flow from operating activities.

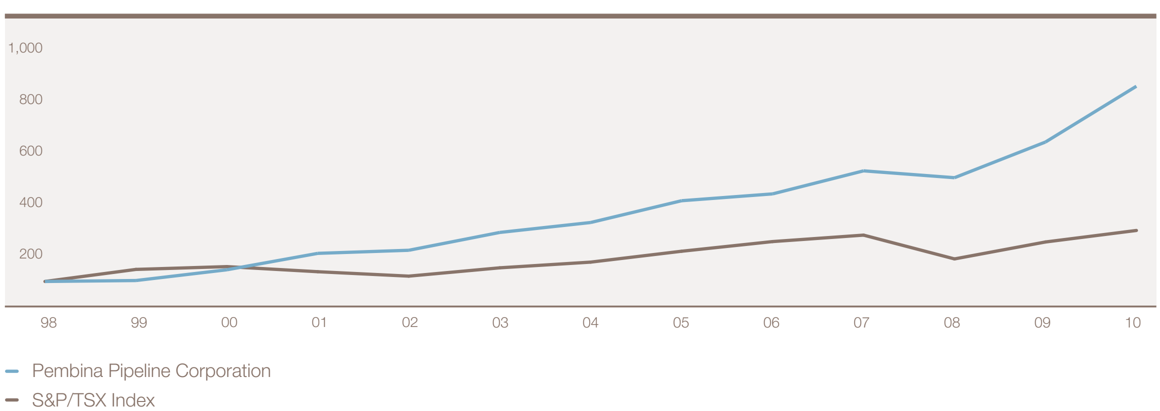
Boosting cash flow will continue to be a major focus in 2011 and beyond. We expect to do so by reducing the costs we can control, providing superior customer service and finding new sources of revenue through responsible growth and further integration of our businesses.

For example, while our Midstream & Marketing business has been impacted by commodity prices, we've responded by expanding the depth and scope of our services and investing in terminals, storage facilities and greater pipeline connectivity. In early 2011, Pembina acquired terminal and storage assets at a in key location near Edmonton, Alberta from Gibson Energy Partnership. The assets, purchased for approximately $57 million, include more than 300,000 barrels of existing storage capacity and sufficient bare land to develop and significantly expand this capacity as customer demand grows.

Improved storage capacity increases Pembina's ability to respond to changing conditions in the marketplace: products can be stored when the market is in a surplus state and drawn down when the situation eases; customer requests for parking can be accommodated; or downstream transportation interruptions can be buffered so upstream tariff revenues are maintained. This latest strategic acquisition is also an example of Pembina's ability to identify and develop the synergies that may exist across our business units. For example, in addition to benefiting our Conventional Pipelines and Gas Services businesses, the assets acquired from Gibson will form an integral

Comparative Total Returns(1)

Relative performance (100 = October 23, 1998)



(1) Source: Scotia Capital and Bloomberg. Dividends/distributions are reinvested in their respective securities.

part of the Pembina Nexus Terminal (PNT), which will connect key infrastructure in the Edmonton - Fort Saskatchewan - Namao area. An immediate opportunity linked with our Oil Sands business will be to develop a diluent distribution facility offerring more supply flexibility for the requirements of the Nipisi heavy oil customers.

Pembina's integrated business model continues to be the right strategy for the times. By diversifying our asset base and developing strategic links among our operations, we are building a self-sustaining corporate entity – where each of our businesses generates value in its own right but can collectively achieve so much more.

In addition to stressing diversification and integration, Pembina's business model is customer-driven – we partner with our customers to ensure they can connect supply to demand efficiently and effectively through all turns of the commodity cycle.

We take pride in Pembina's track record as a safe, reliable and cost-effective service provider. Reliability includes commitments to strong environmental performance and being a trusted member of the communities where we work. This is how we earn and maintain our social licence to operate. These commitments are shared by our more than 430 employees who strive to strengthen Pembina's relationships and reputation in the work they do each and every day. I'd like to thank them for their dedication and for continuing to drive our success.

I would like to thank our Board of Directors for their sound stewardship and support.

I would also like to thank Barbara S. Jack, Vice President, Human Resources for 28 years of outstanding service to Pembina and congratulate her on her retirement. We have a new member on our executive team, Paul Murphy, Vice President, Conventional Pipelines, who I would like to welcome on-board.

Finally, I want to thank you, Pembina's shareholders, for your continued confidence and support. Together, I know we will continue to build an organization of which we can all be proud.

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

March 8, 2011

TECHNOLOGY UNLEASHES THE CARDIUM

Pembina has served Cardium-producing customers since the 1950s, and its Drayton Valley Pipeline System, much of its Midstream & Marketing business and segments of its Peace Pipeline System overlay much of this formation. In fact, the company is named after the Pembina field that was discovered in 1953 and contains an estimated 10 billion barrels of oil – of which only 1.5 billion barrels have been recovered to date.

New horizontal drilling technologies are opening up the prospect of significantly expanded oil production in the region, with estimates ranging from an additional 1.5 billion to 2.5 billion barrels. Pembina is taking a proactive approach by strengthening the service options it provides to oil producers in the area. Pending regulatory approval, we plan to expand the capacity of an existing 42 kilometre section of pipeline that transports crude oil between Willesden Green and Buck Creek, Alberta, more than tripling the pipeline's current capacity of 12,000 bpd in the area. Other expansion plans include pump station reactivations and additions as well as new truck terminals across the system.

"New technologies are changing the outlook for the conventional oil industry and creating new prospects for Pembina," says Pembina President and CEO Bob Michaleski. "Our strategically located assets enable us to provide transportation service with relatively little incremental capital investment. By readying ourselves now for expanded production, we expect to maximize our opportunities in the years and decades ahead."

ACCOMPLISHMENTS IN 2010

- **Delivered responsible growth** Received regulatory approval for the Nipisi and Mitsue Pipeline projects without a public hearing. Completed all project engineering, approximately 80 percent of construction and maintained schedule for a mid-2011 commission date.
- **Completed corporate conversion** On October 1, 2010, Pembina converted from an income trust into a dividend-paying corporation. Pembina's common shares and convertible debentures are traded on the TSX: symbols PPL and PPL.DB.C. The company is committed to maintaining its dividend in the post-conversion world, expecting to pay $1.56 per share per year through 2013.(1)
- **Expanded existing operations**

  Conventional Pipelines: Announced plans to invest approximately $40 million to strengthen transportation service options to producers developing the Cardium formation. Pending regulatory approval, Pembina's various expansion projects are expected to boost throughputs on the Drayton Valley Pipeline system in 2011 and beyond.

  Gas Services: Completed customer agreements, received regulatory approval and initiated construction to support the construction of a 14,400 bpd NGL extraction facility. Project on track to generate cash flow in mid-2011.
- **Strengthened financial footing for growth** Invested more than $200 million on capital projects.
- **Maintained operational excellence** Ensured existing operations ran safely, efficiently and in an environmentally responsible manner while maintaining operating expenses at $160.1 million in 2010 compared to $159.2 million in 2009.

OBJECTIVES FOR 2011

- **Complete first phase of the Nipisi and Mitsue Pipelines** Successfully commission project in a safe manner, on schedule (mid-2011) and on budget ($440 million).
- **Initiate expansion of Nipisi and Mitsue Pipelines** Subject to regulatory approval and pending customer support, plan to expand combined capacity of Nipisi and Mitsue Pipelines by mid-2012 to satisfy potential increased demand.
- **Complete NGL extraction facility** Commission the new 14,400 bpd extraction plant at our Cutbank Complex in mid-year as planned. Ensure contracts are in place for all barrels produced.
- **Increase Conventional Pipeline volumes** Pending regulatory approval, commence expansion of the Drayton Valley Pipeline system.
- **Expand Pembina Nexus Terminal** Increase interconnectivity of Pembina's midstream assets in the Edmonton – Fort Saskatchewan – Namao, Alberta area.
- **Maintain operational excellence** Ensure existing operations continue to run safely, efficiently and in an environmentally responsible manner while ensuring portions of our existing assets can smoothly tie into new growth projects.

(1) Based on Pembina's current assumptions, estimates, expectations and projections Actual results may differ materially. See "Forward-Looking Statements & Information" on page 41 for more information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial and operating results of Pembina Pipeline Corporation and Pembina Pipeline Income Fund (the "Fund") is dated March 8, 2011 and is supplementary to, and should be read in conjunction with, the audited consolidated financial statements for the years ended December 31, 2010 and 2009. Effective October 1, 2010, the Fund and Pembina Pipeline Corporation completed a plan of arrangement pursuant to which the outstanding trust units of the Fund were converted into common shares of Pembina Pipeline Corporation. This resulted in the conversion of the Fund to a corporate entity, being Pembina Pipeline Corporation, which has continued as a successor issuer to the Fund (the "Conversion"). The Board of Directors of Pembina Pipeline Corporation managed the business and affairs of the Fund prior to the Conversion, such that the Conversion had no effect on the overall corporate governance of the business of Pembina (see "Corporate Governance" on page 80). In this MD&A, any references to "Pembina" or the "Corporation" when used in a historical context prior to October 1, 2010 refer to the Fund and its consolidated subsidiaries, and when used in the present tense or prospectively, those terms refer to Pembina Pipeline Corporation and its consolidated subsidiaries. Similarly, any references to "shares" when used in a historical context prior to October 1, 2010 refer to trust units of the Fund, and when used in the present tense or prospectively, refer to the common shares of Pembina Pipeline Corporation. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars unless otherwise specified. See "Non-GAAP Measures" on page 39 for further information about the non-GAAP measures used in this MD&A, which includes references to EBITDA, total enterprise value, net revenue (revenue net of product purchases), and net operating income. Reconciliation of such non-GAAP measures, other than total enterprise value, to the most directly comparable GAAP measure can be found on page 11 in respect of Pembina on a consolidated basis and throughout the MD&A in respect of business segment specific results. The calculation of total enterprise value is discussed on page 23. In addition, this MD&A contains forward-looking statements and information: see "Forward-Looking Statements & Information" on page 41. The financial statements follow the continuity of interest basis of accounting whereby the Corporation is considered a continuation of the Fund. As a result, the comparative balance sheet, statements of income, statements of shareholders' equity and cash flows include the Fund's results of operations for the period up to and including September 30, 2010 and the Corporation's results of operations thereafter. This MD&A has been reviewed and approved by Pembina's Audit Committee of the Board of Directors and its Board of Directors.

Prior to the Conversion, the Fund paid distributions to the holders of its outstanding trust units and, following the Conversion, the Corporation pays dividends to the holders of its outstanding common shares, if, as and when declared thereon by the Board of Directors of the Corporation. When, in this MD&A, references are made to returns on investment or similar concepts over a period of time beginning prior to the Conversion and ending after the Conversion, such references are meant to include any return, including distributions on and fluctuations in the market value of the trust units of the Fund for the relevant period of time prior to the Conversion in addition to any return, including dividends on and fluctuations in the market value of the common shares for the relevant period of time following the Conversion.

ABOUT PEMBINA

Pembina Pipeline Corporation is an energy transportation and service provider that owns and operates assets in Alberta and British Columbia. Pembina transports conventional crude oil, natural gas liquids ("NGL"), synthetic crude and heavy oil, and serves customers through a network of terminals, storage facilities, hub services and natural gas gathering and processing facilities. From September 4, 1997 to September 30, 2010, the Corporation was wholly-owned by the Fund. The Fund's trust units and convertible debentures were previously traded on the Toronto Stock Exchange ("TSX") under the symbols PIF.UN and PIF.DB.B, respectively. Following the Conversion, on October 5, 2010, Pembina's common shares and 7.35 percent convertible debentures began trading on the TSX under the symbols PPL and PPL.DB.B, respectively. The 7.35 percent convertible debentures matured and ceased trading on December 31, 2010 and, on November 24, 2010, Pembina issued $300 million principal amount of 5.75 percent convertible debentures, which trade on the TSX under the symbol PPL.DB.C.

REORGANIZATION TO A CORPORATE STRUCTURE

On October 1, 2010, Pembina successfully completed its previously announced plan of arrangement by virtue of which the business of Pembina was reorganized into a dividend-paying corporation. Pursuant to the Conversion, holders of trust units received one common share of Pembina Pipeline Corporation for each trust unit held. In addition, the obligations of the Fund under the outstanding 7.35 percent convertible debentures due December 31, 2010 were assumed by the Corporation. Holders of the 7.35 percent convertible debentures were entitled to receive common shares on conversion of the debentures on the same basis they were entitled to receive trust units prior to the closing of the plan of arrangement. The 7.35 percent convertible debentures matured and ceased trading on December 31, 2010. By converting to a corporation, Pembina avoided the imposition of specified-investment flow through ("SIFT") tax applicable beginning in 2011.

BUSINESS OBJECTIVE AND STRATEGY

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

- Generate value by providing customers with cost-effective, reliable services.
- Diversify Pembina's asset base to enhance profitability. A diverse portfolio provides Pembina with the ability to respond to market conditions, reduce risk and increase opportunities to leverage existing businesses. A priority is placed on developing businesses that support Pembina's core competency – operating crude oil and NGL transportation systems and gas gathering and processing infrastructure – which allows for expansion, vertical integration and accretive growth.
- Implement growth in a safe and environmentally responsible manner. Growth is expected to occur through expansion of existing businesses, acquisitions and the development of new services. Pembina's investment criteria include pursuing projects or assets that are expected to generate increased cash flow per share and capture long-life, economic hydrocarbon reserves.
- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

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

Conventional Pipelines

Pembina's Conventional Pipelines form a 7,500 kilometre network that extends across much of Alberta and British Columbia, transporting approximately 50 percent of Alberta's conventional crude oil production and approximately 20 percent of the NGL produced in western Canada. The primary objective of the Conventional Pipelines business is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue. Operating margins are maintained through incremental volume capture, system expansion, revenue management and operating expense discipline. During 2010, throughput averaged 374,000 barrels per day ("bpd"), consisting of an average of 265,500 bpd of crude oil and 108,500 bpd of NGL.

Oil Sands & Heavy Oil

With three oil sands pipelines, Pembina plays an important role in supporting Alberta's oil sands industry. Pembina is the sole transporter of crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Limited's ("CNRL") Horizon Project (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Cheecham Lateral, which transports product to oil sands producers operating southeast of Fort McMurray, Alberta. In total, this business has approximately 1,000 kilometres of pipeline with 775,000 bpd of transportation capacity and about 30 percent of the total take-away capacity from the Athabasca oil sands region. These assets operate under long-term, extendable contracts that provide for the flow through of operating expenses to customers. As a result, net operating income from this business is primarily related to invested capital and is not generally sensitive to fluctuations in operating expenses or actual throughputs. Pembina is expanding this business through its Nipisi and Mitsue Pipeline projects which, when complete, will provide transportation support to producers operating in the Pelican Lake and Peace River heavy oil region of Alberta. See page 17 for further details.

Midstream & Marketing

This business consists of a network of terminals, storage and hub services located across Pembina's Conventional Pipelines system as well as a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility located near Edmonton, Alberta and the Laglace Full Service Terminal. By integrating services along the hydrocarbon value chain, this business has increased the range of services provided to customers and has contributed to throughput within the Conventional Pipelines business. The value potential associated with terminal, storage and hub services is dependent upon the ability of Pembina to: provide connections to both downstream pipelines and end-use markets; understand the value of the commodities transported and terminalled; provide flexibility and a variety of storage options; and a liquid, responsive, forward commodity market. Part of the value of various grades of crude oil is their respective differentials. These differentials are based primarily on the refinery yields, local supply-demand dynamics and liquidity. Pembina actively monitors market conditions and stream values to target revenue opportunities.

Gas Services

On June 2, 2009, Pembina expanded its business to include natural gas gathering and processing by acquiring the Cutbank Complex. Located approximately 100 kilometres south of Grande Prairie, Alberta, the Cutbank Complex consists of over 300 kilometres of gathering lines and ownership in three sweet gas processing plants with 360 million cubic feet per day ("mmcf/d") of processing capacity (305 mmcf/d net to Pembina). These assets are connected to Pembina's Peace Pipeline system and serve an active exploration and production area in the Western Canadian Sedimentary Basin ("WCSB"). During 2010, average processing volume net to Pembina was 220.5 mmcf/d.

REPORTING, DISCLOSURE CONTROLS & PROCEDURES

As part of the requirements mandated by the Canadian securities regulatory authorities under National Instrument 52-109-Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), Pembina's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have evaluated the design and operation of Pembina's disclosure controls and procedures, or "DC&P", as such term is defined in NI 52-109, as at December 31, 2010. Based on that evaluation, the CEO and the CFO concluded that Pembina's DC&P was effective as at December 31, 2010.

The CEO and CFO are also responsible for establishing and maintaining internal controls over financial reporting, or "ICFR", as such term is defined in NI 52-109. These controls are designed to provide reasonable assurance regarding the reliability of Pembina's financial reporting and compliance with GAAP. Pembina's CEO and CFO have evaluated the design and operational effectiveness of such controls as at December 31, 2010. Based on the evaluation of the design and operating effectiveness of Pembina's ICFR, the CEO and the CFO concluded that Pembina's ICFR was effective as at December 31, 2010.

In February 2008, the Accounting Standards Board ("AcSB") confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Details about Pembina's progress in the IFRS conversion project during 2010 can be found on page 29.

CONSOLIDATED FINANCIAL RESULTS

Years ended December 31, 2010 and 2009 ($ millions, except per share amounts)	2010	2009
Revenue	**1,255.1**	811.8
Less: product purchases	**735.2**	314.4
Net revenue (1)	**519.9**	497.4
Operating expenses	**160.1**	159.2
Net operating income (1)	**359.8**	338.2
Deduct/(add):		
General and administrative	**44.1**	51.4
Depreciation and amortization	**66.9**	69.8
Accretion on asset retirement obligations	**7.1**	6.6
Other expense (income)	**(0.2)**	0.3
Interest on long-term debt	**56.1**	48.9
Interest on convertible debentures	**4.1**	3.0
Future income tax reduction	**(3.9)**	(3.9)
Current income tax reduction	**(1.1)**	
Net earnings	**186.7**	162.1
Net earnings per share – basic ($ per common share)	**1.14**	1.09
Net earnings per share – diluted ($ per common share)	**1.14**	1.07

(1) Refer to "Non-GAAP Measures" on page 39.

Revenue, net of product purchases, for 2010 was $519.9 million compared to $497.4 million in 2009. This increase is largely due to a full year of revenue contribution from Gas Services in 2010 compared to seven months of operations in 2009 (the Gas Services business unit was established in June 2009 when Pembina acquired the Cutbank Complex), offset by tighter margins in Pembina's Midstream & Marketing business. Conventional Pipelines and Gas Services realized improved revenues despite being challenged by the impact of weather on Pembina's customers production levels and pipeline apportionments that restricted transportation volumes.

Operating expenses in 2010 were $160.1 million compared to $159.2 million in 2009. Operating expenses held fairly steady year-over-year as costs associated with establishing the Gas Services business and higher power costs within Oil Sands & Heavy Oil were offset by diligent cost control, which reduced maintenance and labour costs in the Conventional Pipelines business. Pembina's commitment to enhancing revenue and containing costs, while providing safe, reliable and cost-effective service to customers, has also strengthened margins. Net operating income for 2010 was $359.8 million compared to $338.2 million in 2009 with the increase due to the same factors that impacted net revenue.

To further manage operating expenses, provide cost certainty and stabilize tolls for the benefit of customers, Pembina has hedged 25 megawatts ("MW") of non-transmission power charges by way of price swap contracts for 2010 through 2015. The fair value of these contracts at December 31, 2010 was an unrealized gain of $0.4 million. The power swap contracts hedge the first 15 MW of power consumption each day at an average price of $45.65 per megawatt hour ("MWh") for 2011, 5 MW at an average price of $47.75 per MWh for 2012 and an additional 5 MW at an average price of $54.50 MWh from 2011-2015. Assuming a portion of the power was not hedged, every $5 KWh change in the Alberta pool price would increase operating expenses by approximately $0.7 million. Since 2002, Pembina has passed power hedging savings of approximately $21 million through to customers.

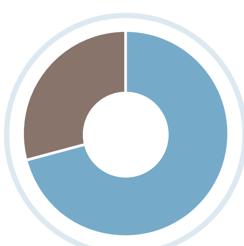
Net earnings in 2010 were $186.7 million compared to $162.1 million in 2009. The increase in net earnings reflects higher net operating income, decreased general and administrative expenses, lower depreciation and amortization, and lower income tax expense. This was offset by higher interest expense. See page 21 for further information.

Cash flow from operating activities was $255.1 million in 2010 compared to $224.6 million in 2009.

OPERATING RESULTS

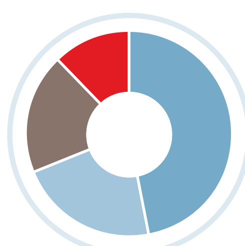
	2010		2009	
($ millions)	Revenues	Net operating income(1)	Revenues	Net operating income(1)
Conventional Pipelines	**261.6**	**169.7**	255.0	150.4
Oil Sands & Heavy Oil	**118.4**	**78.2**	115.6	81.6
Midstream & Marketing (2)	**78.4**	**68.1**	93.8	83.2
Gas Services (3)	**61.5**	**43.8**	33.0	23.0
Total	**519.9**	**359.8**	497.4	338.2

(1) Refer to "Non-GAAP Measures" on page 39.
(2) Midstream & Marketing revenue is net of $735.2 million in product purchase expense for 2010 (2009: $314.4 million).
(3) Operating assets for Gas Services were acquired on June 2, 2009.



2010 Conventional Throughput
(Average bpd)

Conventional Crude Oil	265,500
Natural Gas Liquids	108,500
Total	**374,000**



2010 Net Operating Income (1)
($ millions)

Conventional Pipelines	169.7
Oil Sands & Heavy Oil	78.2
Midstream & Marketing	68.1
Gas Services	43.8
Total	**359.8**

(1) Refer to "Non-GAAP Measures" on page 39.

CONVENTIONAL PIPELINES

($ millions, except where noted)	2010	2009
Revenue	261.6	255.0
Operating expenses	91.9	104.6
Net operating income (1)	169.7	150.4
Capital expenditures	28.8	27.7
Average throughput (thousands of bpd)	374.0	393.3
Operating expenses ($/bbl)	0.64	0.68
Average revenue ($/bbl)	1.79	1.65

(1) Refer to "Non-GAAP Measures" on page 39.

OPERATIONAL PERFORMANCE

During 2010, Conventional Pipelines' throughput averaged 374,000 bpd compared to 393,300 bpd in 2009. The decline in throughput primarily reflects (i) Pembina's December 2009 sale of the Cremona Pipeline system, which impacted average throughput by approximately 11,000 bpd; (ii) a 15,000 bpd decline on the Bonnie Glen system, which resulted when a major pipeline connection ceased deliveries on March 31, 2010; and (iii) discontinued service on the Miscible Flood system on March 31, 2010 (this pipeline will be utilized by the Nipisi and Mitsue Pipeline projects, see discussion on page 17), which reduced throughput by approximately 4,000 bpd. Throughput during 2010 was also impacted by weather, which impacted customers' production levels, and by pipeline apportionments that restricted transportation volumes.

These negative impacts were offset by throughput increases on the Drayton Valley and Peace Pipeline systems. Management believes two key factors should benefit pipeline throughput going forward:

1) In early 2010, the Government of Alberta restructured its royalty system to attract additional investment by natural gas and conventional oil producers. In addition, the government's Emerging Resources and Technologies Initiative modified the royalty rate for unconventional and deep resource wells that require the use of higher cost technologies. This is strengthening the ability of producers to invest in additional wells, research and development initiatives. Stimulating the application of new technologies in resources that have not yet fully been exploited is expected to increase conventional crude oil production.

2) Technological advances are increasing recovery rates and reducing operating expenses for both natural gas and conventional crude producers. This, in turn, is attracting new investment in exploration and development. Horizontal drilling and multi-stage fracturing technology are expected to rejuvenate production from the Cardium oil formation that underlies Pembina's Drayton Valley pipeline system and segments of the Peace Pipeline system. According to various industry studies, the Cardium oil formation is estimated to contain approximately 10 billion barrels of oil. A relatively small amount – approximately 1.5 billion barrels – of that oil has been recovered to date.

Pembina's Conventional Pipelines business is well-maintained and strategically located near these potential sources of new volume. Throughout 2010, development in the Cardium formation has increased throughput on the Drayton Valley system by more than 10,000 bpd and additional volumes are expected. December 2010 exit volumes on the Drayton Valley system were over 100,000 bpd and over 170,000 bpd on the Peace Pipeline system compared to approximately 80,000 bpd and 150,000 bpd, respectively, in 2009. Tie-ins, connections and most upgrades can be achieved with modest investments, enabling Pembina to cost-effectively transport new production to market for its customers. Pembina is actively marketing its competitive advantages and is working with producers to assess the transportation needs that are expected to arise from these opportunities. See page 18 for further details on Pembina's plans for expansion in the Cardium area.

FINANCIAL PERFORMANCE

Conventional Pipelines generated revenue of $261.6 million during 2010 compared to $255.0 million in 2009. Revenues were up, despite lower throughputs, primarily as a result of changing receipt point dynamics and toll adjustments.

Operating expenses in 2010 totaled $91.9 million compared to 2009 when operating expenses were 104.6 million. This decrease is the result of diligent cost management to reduce maintenance and labour expenses while enhancing pipeline integrity, safety and reliability. Lower throughput also reduced power expenses.

Pembina's commitment to increasing revenue and containing cost while providing safe, reliable and cost-effective service to customers, has also strengthened margins. Net operating income in 2010 was $169.7 million, compared to 2009 net operating income of $150.4 million for the aforementioned reasons. As a result of this positive performance, Pembina did not increase tolls in 2011 on its major pipeline systems.

In 2010, capital expenditures within the Conventional Pipelines business totaled $28.8 million, which was comparable to 2009 levels. Spending in 2010 was focused on increasing capacity at certain sites and improving the operating performance of the Peace and Drayton Valley Pipeline systems and the Western system in British Columbia. Return on capital is expected to occur over varying periods of time, depending upon the pipeline system. However, capital expenditures in this business do not always result in increased revenue due to offsetting factors such as volume variability across the pipeline systems and depreciation of the underlying assets. For more information about Pembina's 2010 capital spending program, see page 24.

OIL SANDS & HEAVY OIL

($ millions, except where noted)	2010	2009
Revenue	118.4	115.6
Operating expenses	40.2	34.0
Net operating income (1)	78.2	81.6
Capital expenditures	115.6	82.1
Capacity under contract (thousands of bpd)	775.0	775.0

(1) Refer to "Non-GAAP Measures" on page 39.

Pembina's Oil Sands & Heavy Oil business owns and operates three pipelines that support oil sands producers operating near Fort McMurray, Alberta: the Syncrude Pipeline, the Cheecham Lateral, and the Horizon Pipeline. The agreements with the customers with whom these assets are contracted provide Pembina with a fixed return on invested capital and allow for the full recovery of operating expenses. As such, net operating income from these pipelines is not throughput dependent.

Syncrude Pipeline Pembina's Syncrude Pipeline has a capacity of 389,000 bpd and is fully contracted to the owners of Syncrude Canada Ltd. under an extendable, long-term agreement that expires at the end of 2035. Net operating income generated by the Syncrude Pipeline during 2010 was $26.0 million compared to $30.4 million in 2009. The decrease is largely due to a reduction in the pipeline rate base which became effective in the third quarter of 2009, resulting from the sale of linefill that provided Pembina with a one-time gain of $42.9 million ($29.9 million after taxes).

Cheecham Lateral Pembina's Cheecham Lateral has a capacity of 136,000 bpd and is fully contracted to shippers under the terms of a 25-year agreement that expires in 2032. Net operating income generated by the Cheecham Lateral during 2010 was $4.5 million, compared to $4.6 million in 2009.

Horizon Pipeline The Horizon Pipeline is fully contracted to CNRL and has a capacity of 250,000 bpd. The Horizon Pipeline is operated under the terms of a 25-year extendable contract, which expires in 2033. Net operating income generated by the Horizon Pipeline during 2010 was $46.5 million, compared to $46.6 million in 2009.

Operating expenses for the Oil Sands & Heavy Oil business in 2010 were $40.2 million compared to $34.0 million in 2009. This increase is primarily due to higher power costs, which are not hedged at the request of Pembina's customers. Operating expenses have a limited impact on this business as almost all expenditures are recovered from shippers.

Pembina is nearing the completion of its Nipisi and Mitsue Pipelines, which will serve producers in the Pelican Lake and Peace River heavy oil regions of Alberta. The Nipisi and Mitsue Pipelines are initially being constructed to transport a combined 122,000 bpd of diluted heavy oil and condensate. Construction is progressing on-time and under budget and, Pembina anticipates an on-stream date of mid-2011 for both pipelines, with a total capital expenditure of $440 million and associated annual net operating income of approximately $45 million. See page 17 for further details.

In 2010, capital expenditures within Oil Sands & Heavy Oil totaled $115.6 million compared to $82.1 million in 2009. The majority of the 2010 investment – $109.0 million – constituted spending to progress the Nipisi and Mitsue Pipeline projects. For more information about Pembina's 2010 capital spending program, see page 24.

MIDSTREAM & MARKETING

	2010	2009 [1]
($ millions, except where noted)		
Revenue	**813.6**	408.2
Less: product purchases	**735.2**	314.4
Net revenue [2]	**78.4**	93.8
Operating expenses	**10.3**	10.6
Net operating income [2]	**68.1**	83.2
Capital expenditures	**22.0**	30.3

(1) 2009 Midstream & Marketing results have been restated to exclude the contribution of Gas Services.
(2) Refer to "Non-GAAP Measures" on page 39.

The Midstream & Marketing business recorded revenue, net of product purchases, of $78.4 million during 2010 compared to $93.8 million during 2009. As with Conventional Pipelines, this business was also hindered by weather that impacted customer production levels and pipeline apportionments that restricted transportation volumes during 2010. Net revenue was also negatively impacted by throughput declines resulting from the sale of the Cremona Pipeline system in late 2009, delivery changes on the Bonnie Glen system and discontinued service on the Miscible Flood system (see page 13 for more information). While the day-to-day business activity of Midstream & Marketing increased throughout 2010, the margins generated by the business narrowed, decreasing net revenue.

Offsetting the decline in revenue was a modest reduction in operating expenses. Midstream & Marketing's operating expenses in 2010 were $10.3 million compared to 2009 when operating expenses totaled $10.6 million.

The Midstream & Marketing business contributed $68.1 million in net operating income during 2010 compared to $83.2 million the prior year. Net operating income was impacted by the same factors that impacted revenue.

In 2010, capital expenditures within Midstream & Marketing were $22.0 million compared to $30.3 million in 2009. For more information about Pembina's 2010 capital spending program, see page 24.

GAS SERVICES

($ millions, except where noted)	2010	2009
Revenue	61.5	33.0
Operating expenses	17.7	10.0
Net operating income (1)	43.8	23.0
Capital expenditures (2)	33.5	279.6
Average processing volume (mmcf/d net to Pembina)	220.5	197.4

(1) Refer to "Non-GAAP Measures" on page 39.

(2) 2009 capital expenditures for Gas Services include $274 million to acquire the Cutbank Complex assets on June 2, 2009. In previous disclosure, the acquisition cost was reported in the Midstream & Marketing segment.

Gas Services recorded revenue of $61.5 million during 2010 compared to $33.0 million during 2009. This increase primarily reflects a full year of operations from this business and higher processing volume at the Cutbank Complex. Average processing volume, net to Pembina, was 220.5 mmcf/d during 2010, compared to 197.4 mmcf/d during 2009. Higher processing volumes also increased revenues in 2010; however, a full comparison to 2009 cannot be made as the business' operating assets were only acquired in June of that year.

During 2010, operating expenses were $17.7 million compared to $10.0 million in 2009. Gas Services contributed $43.8 million in net operating income during 2010 compared to $23.0 million in 2009, with the differences year-over-year primarily a result of the timing of the Cutbank Complex acquisition in June 2009.

Gas Services has started construction on a project to enhance NGL extraction at the Cutbank Complex. For details, see page 18. This project, along with work to upgrade the business' natural gas gathering system, has brought 2010 spending to $33.5 million, compared to $5.6 million (excluding the costs to acquire the Cutbank Complex) in the prior year. For more information, see page 24.

BUSINESS ENVIRONMENT

During 2010, the business environment in which Pembina operates continued to exhibit marked recovery over 2009 despite various continued global macro-economic challenges. The economic and financial outlook remained generally positive as access to capital markets and consolidation activities improved in 2010, while key interest rates remained relatively low to stimulate growth activity. Corporate profits and select leading indicators continued to improve in 2010 and imply a return to economic growth in North America.

Energy commodity prices strengthened in 2010 along with broad macro-economic indicators. Crude oil prices appreciated materially, as the West Texas Intermediate ("WTI") average spot price increased from U.S.$61.95 per barrel in 2009 to U.S.$79.48 per barrel in 2010 due to strong demand and currency market dynamics. Natural gas prices recovered, with the NYMEX Henry Hub average spot price increasing from an average of U.S.$3.94 per million British thermal units ("mmBtu") in 2009 to U.S.$4.37 per mmBtu despite expectations of oversupply given storage levels in North America and the ongoing development of large resources located in shale basins in the U.S. The combination of relatively high oil prices and low gas prices has led commodity producing firms to focus on liquids production, namely crude oil and liquids-rich natural gas. This trend has benefited Pembina throughout 2010 by increasing throughput on various liquids pipelines as well as supporting projects that capture inherent liquids value. Pembina expects this trend to continue to prevail in the near term.

Despite wet weather conditions in the WCSB in 2010, energy producers responded to the improved market conditions by progressing with successful drilling programs and consolidation activities, particularly in the fourth quarter. Active drilling rig counts during 2010 in the WCSB continued to improve over 2009 levels, as producers continued to move toward horizontal wells and fracturing in light of positive market conditions. Recent refinery conversions and the commercial inauguration of two major import/export pipelines improved heavy oil economics for oil sands and heavy oil producers in 2010, despite temporary apportionment and a supply glut due to issues which have since been resolved on a third party's primary export pipeline to U.S. markets. These factors led to increased throughput and business development opportunities for all of Pembina's business units throughout 2010.

The outlook for the energy infrastructure sector in the WCSB remains positive at the close of 2010. Pembina expects that further development will occur across the basin in both conventional and unconventional areas to meet stable demand for liquids and natural gas. The demand for energy infrastructure is expected to keep pace with this development.

NEW DEVELOPMENTS AND OUTLOOK

DIVIDENDS

Based on certain assumptions and expectations, and subject to compliance with applicable law, Pembina expects to maintain its dividend of $1.56 per share per year (payable monthly at $0.13 per share per month) through 2013 (see "Forward-Looking Statements & Information" on page 41). As of December 31, 2010, cumulative dividend payments made since Pembina's inception in September 1997 were approximately $15.40 per share. Dividends are payable if, as, and when declared by Pembina's Board of Directors ("Board"), and the amount and frequency of dividends declared and payable is at the discretion of the Board, which will consider earnings, capital requirements, the financial condition of Pembina and other relevant factors.

With corporate conversion, eligible Canadian investors may benefit from an enhanced dividend tax credit afforded to the receipt of dividends, as compared to distributions of income, depending on individual circumstances. Dividends paid to eligible U.S. investors should qualify for the reduced rate of tax applicable to long-term capital gain.

CONVERTIBLE DEBENTURES

On November 24, 2010 Pembina completed its public offering of $300 million aggregate principal amount of 5.75 percent convertible unsecured subordinated debentures (the "Debentures") due November 30, 2020. The Debentures are listed on the TSX under the symbol PPL.DB.C.

Pembina used the net proceeds from the Debentures to partially repay existing credit facilities, thereby creating borrowing capacity available to fund a portion of Pembina's capital expenditure program, including capital expenditures relating to the Corporation's growth projects, and for general corporate purposes. Pembina's current suite of growth projects includes the construction of the Nipisi and Mitsue Pipelines, the construction of an enhanced NGL extraction facility at the Cutbank Complex, and projects that are expected to expand the transportation service options the Corporation can offer producers developing the Cardium oil formation located in central Alberta. See "2011 Capital Expenditures" on page 25 and "Liquidity and Capital Resources" on page 23 for further details.

Pembina's 7.35 percent convertible unsecured subordinate debentures, which traded on the TSX under the symbol PPL.DB.B, matured on December 31, 2010.

NIPISI & MITSUE PIPELINE PROJECTS

On July 13, 2010, Pembina announced it had received approval from Alberta's Energy Resources Conservation Board (the "ERCB") to construct and operate the Nipisi and Mitsue Pipelines. The approvals to proceed were granted without need for a public hearing, as all stakeholder objections were resolved through the consultation process.

The Nipisi Pipeline, which will transport diluted heavy oil, originates north of the town of Slave Lake, Alberta and connects to an existing Pembina pipeline system that delivers products to the Edmonton, Alberta area. The Mitsue Pipeline will transport condensate from various receipt points to producers operating north of the town of Slave Lake, who will use the product to dilute their heavy oil in order to transport it to market.

The Nipisi and Mitsue Pipelines are initially being constructed to transport a combined 122,000 bpd of diluted heavy oil and condensate. Construction is progressing on time and under budget. As of the end of February 2011, significant progress has been made for both pipeline and pump station construction. Pembina anticipates all pipeline construction will be completed by mid-April. The project also includes the construction of seven pump stations (two for the Mitsue Pipeline and five for the Nipisi Pipeline). Civil construction is complete for all sites, mechanical construction is about 80 percent complete and electrical work has recently commenced. It is anticipated that all pump station construction will be complete by early May and Pembina anticipates an on-stream date of mid-2011 for both pipelines.

When complete, both pipeline projects are estimated to cost a combined total of $440 million. Based on certain assumptions, Pembina's internal projections estimate the two pipelines will together, once fully operational, generate approximately $45 million per annum in net operating income. See "Forward-Looking Statements & Information" on page 41.

Pembina expects the Nipisi and Mitsue Pipelines to contribute highly stable cash flow by providing a fixed return on invested capital with no volume throughput risk and allowing for the full recovery of operating expenses. In addition, the Nipisi Pipeline can be expanded to a capacity of approximately 200,000 bpd while the Mitsue Pipeline can be expanded to a capacity of approximately 45,000 bpd.

ENHANCED NGL EXTRACTION

In November 2010, Pembina initiated construction of an enhanced NGL extraction facility at its Cutbank Complex as well as a 10 kilometre pipeline to deliver NGL to Pembina's Peace Pipeline system. As of the end of February 2011, this project is on schedule and on budget. Pembina expects that all of the plant's 14,400 bpd extraction capacity will be contracted under terms designed to provide Pembina with cash flow certainty, significantly reducing the company's exposure to commodity price risk. To date, Pembina has secured an anchor contract with a customer for the majority of the facility's planned capacity. Further contracts for the remaining capacity are expected to be in place prior to the expected in-service date of July 2011.

EMERGING RESOURCE DEVELOPMENTS

As the upstream sector continues to restructure around promising technologies and unfolding commodity prices, a number of plays are emerging or growing in significance to Pembina. Of particular interest are plays traditionally considered to be mature or unviable, which are now being rejuvenated for the reasons noted above. Although some of these plays are gas oriented, this has brought increased gas handling requirements and additional opportunities for Pembina. These new gas volumes, in combination with the liquids value embedded in the gas, has created interest in new and upgraded gas plants (with enhanced liquids extraction capacity) and ethane plus (C2+) transportation opportunities. A subset of these developments is discussed below.

The Alberta Deep Basin

A number of plays within the Cretaceous in the Alberta Deep Basin, such as the Cardium, Glauconite and Bluesky are being rejuvenated through the combination of strong oil prices and improved recoveries and productivity born of innovative technology. Many of these plays are being exploited first where they are expected to be oil bearing, but they also represent attractive gas objectives because of the significant levels of related liquids. As evidence of this, Pembina recently executed an agreement to extend the Peace Pipeline system south into the greater Edson area by re-commissioning one of its previously deactivated pipelines, providing liquids transportation options for producers exploiting the Deep Basin Cretaceous formations. Although these are predominately gas plays, the hydrocarbon liquids content is a significant driver for activity in this region.

Cardium

From December 2009 to December 2010, development in the Cardium formation has contributed to increased average daily throughput on the Drayton Valley Pipeline and Peace Pipeline by more than 20,000 bpd. Pembina expects additional volumes may be captured by these pipeline systems in the near-term future. In 2010, Pembina announced that, subject to receiving regulatory approval, it plans to invest approximately $40 million on projects that will strengthen the transportation service options it provides producers developing the Cardium oil formation located in west central Alberta. Pembina is actively marketing its competitive advantages and is working with producers to assess the transportation needs that are expected to arise from these opportunities.

In 2010 Pembina executed agreements with producers on its systems representing approximately 10,000 bpd of Cardium production and entered into construction support agreements with producers representing an additional 10,000 bpd of production.

Pembina, which is named after the Pembina Oil Field, has been operating in the Cardium area since the 1950s and its Drayton Valley Pipeline system, much of its Midstream & Marketing business, and segments of its Peace Pipeline system overlay much of this formation. Discovered in 1953, the Pembina Oil Field is, according to various industry and government sources, estimated to contain approximately 10 billion barrels of oil.

New horizontal drilling, multi-stage fracturing technology has the potential to cost-effectively unlock a substantial amount of incremental oil production with estimates ranging from 1.5 billion to 2.5 billion barrels. As a result, Pembina is examining other expansion opportunities in this area.

Montney

As the Montney play continues to be de-risked and defined, it is becoming increasingly apparent that some parts of the play contain material amounts of hydrocarbon liquids, both entrained in the gas phase as well as free, in the form of condensate. Given the scale of the Montney resource, its location and proximity to Pembina's infrastructure and the relatively certainty with which it can be exploited, even moderate liquid content could lead to significant volume increases on Pembina's existing pipeline systems.

Swan Hills

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

Seal / Pelican Lake

The Seal / Pelican Lake projects are located in the Peace River Arch Oilsands region of northwest Alberta and contain third-party estimates of over 50 billion barrels in place. While this area has been producing for several years, recent changes to technology such as water flooding and polymer injection has increased production significantly in recent years. Industry estimates range from 5 percent to 7 percent recovery under primary recovery rising to 30 percent to 40 percent using thermal development. Pembina's Nipisi and Mitsue Pipelines are being constructed to service this area and will be in service mid-2011.

MIDSTREAM FACILITY ACQUISITION

Pembina announced on January 12, 2011 that its subsidiary, Pembina Midstream Limited Partnership ("PMLP"), acquired terminalling and storage facilities in the Edmonton, Alberta area for an aggregate purchase price of approximately $57 million effective December 31, 2010.

The assets, located near key markets in the Edmonton area, consist of pipeline connected terminalling and storage facilities capable of creating tailored products and services for customers. The acquisition includes over 300,000 barrels of existing storage and sufficient bare land to develop and significantly expand this capacity as customer demand grows. PMLP will primarily use the assets to receive, aggregate and deliver product to and from Pembina's customers, and currently has various upstream and downstream interconnections.

This acquisition forms an important part of Pembina's growth strategy in the Midstream & Marketing business. Pembina expects it to increase PMLP's ability to provide new, customer-focused services, expand its terminalling capabilities through greater connectivity of its infrastructure and allow it to bring incremental operational and merchant storage to the market.

Further, the assets will form an integral part of the Pembina Nexus Terminal ("PNT"), which will connect key infrastructure in the Edmonton-Fort Saskatchewan-Namao area. Pembina envisions that PNT will act, among other things, as a key diluent distribution facility to serve the growing diluent demand by customers in the oil sands and heavy oil sector. PNT is also expected to form a receipt and delivery terminal for the potential expansion of Pembina's Mitsue Pipeline, which will enable Pembina to expand diluent delivery to the Peace River heavy oil area. Pembina is already developing plans to increase the interconnectivity of the terminal, aimed at providing value to both upstream and downstream customers.

The acquisition was funded by Pembina's existing credit facilities and closed on January 7, 2011.

FORT SASKATCHEWAN ETHYLENE STORAGE FACILITY

Three of the five ethylene storage caverns in the Storage Facility are currently out of service and it is unlikely those caverns will be put back into ethylene storage service. The joint owners of the Storage Facility are investigating other potential uses for the caverns as well as examining alternative capacity options for ethylene storage available elsewhere on the jointly owned property. At this stage, Pembina does not expect to see a material reduction in revenue as a result, and it is anticipated that an additional cavern will be washed.

EXPENSES

GENERAL & ADMINISTRATIVE

General and administrative expenses were $44.1 million in 2010 compared to $51.4 million in 2009. Included in 2009 is a one-time $3 million charge related to an internal restructuring. The rest of the decrease in 2010 compared to 2009 was due to a reduction in the use of third-party consultants. These costs were offset by one-time legal and other costs primarily relating to corporate conversion and conversion to IFRS (see page 29). Overall, general and administrative expenses represented 12.3 percent of net operating income and 8 percent of net revenue in 2010.

DEPRECIATION & AMORTIZATION

Depreciation and amortization expenses were $66.9 million in 2010, compared to $69.8 million in 2009. The decrease reflects the disposition of certain non-material assets as well as a revision of estimates made during 2010. Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 33 years (an average of 27.5 years) or declining balance method at rates ranging from 3 percent to 33 percent per annum (an average of 5.3 percent per annum). Storage assets and facilities are depreciated using the straight line method over 40 years. These rates are established to depreciate remaining net book value over the economic lives or contractual duration of the related assets.

ACCRETION ON ASSET RETIREMENT OBLIGATIONS

Accretion on asset retirement obligations was $7.1 million in 2010 compared to $6.6 million in 2009. This increase was due to the full impact of accretion expense on the Cutbank Complex asset retirement obligation set up mid-year 2009 and revision of estimates made during 2010 related to the ultimate retirement expenses of facilities. The Corporation estimated the net present value of its total asset retirement obligations based on a total future liability of $963 million (2009: $800 million). This increase was due to additional pipeline connections and facilities, and revised costs. The estimate of $963 million in 2010 included a revision in timing of payments, which resulted in a net decrease in the obligation as at December 31, 2010. The obligations are expected to be paid over the next 50 years with substantially all being paid between 37 and 42 years. The actual results may differ from these estimations. There were no material facility asset retirements in 2010 or 2009.

INTEREST EXPENSE & FINANCIAL INSTRUMENTS

Interest expense for long-term debt for 2010 was $56.1 million compared to $48.9 million in 2009, primarily due to an increase in average debt outstanding throughout the year and a higher proportion of fixed rate debt. Outstanding total long-term debt at the end of 2010 was approximately $1 billion compared to $1.1 billion in 2009. The decrease in the year-end balance is due to a repayment of debt in November 2010 using proceeds from the issuance of $300 million in 5.75 percent convertible debentures. The increase in debt throughout 2010 (before repayment in December) was due to the financing of capital expenditures mainly to fund the Nipisi and Mitsue Pipelines. In 2010, interest of $6.4 million relating to development projects was capitalized compared to $1.4 million in 2009. At year-end 2010, Pembina had $200 million in interest rate swaps outstanding on its variable rate bank borrowing, with an average rate of 4.4 percent and an average remaining term to expiration of 5.2 years. The unrealized mark to market loss on the interest rate swaps was $9.9 million as at December 31, 2010 (2009: $6.1 million unrealized loss). Including the interest rate swaps, interest rates on $983 million in senior secured and unsecured notes have been fixed, leaving roughly 4 percent of Pembina's outstanding debt exposed to interest rate fluctuations.

CONVERTIBLE DEBENTURES

Interest paid on Pembina's outstanding convertible debentures was $4.1 million in 2010 compared to $3 million in 2009. In 2010, Pembina experienced a decrease in interest paid on the 7.35 percent convertible unsecured subordinated debentures of approximately $0.6 million due to the conversion into shares throughout 2010. The 7.35 percent convertible unsecured subordinated debentures matured on December 31, 2010. These debentures were convertible at the option of the holder at a conversion price of $12.50 per common share at any time prior to maturity or redeemable by the Corporation. On November 24, 2010, Pembina issued $300 million in 5.75 percent convertible unsecured subordinated debentures that mature on November 30, 2020, with interest payable semi-annually in arrears on May 31 and November 30. The debentures may be converted at the option of the holder at a conversion price of $28.55 per common share at any time prior to maturity and may be redeemed by the Corporation after November 30, 2016, at its option (or after November 30, 2014, at its option, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125 percent of the conversion price of the debentures). The issuance of these new debentures resulted in an interest expense accrual at year end of approximately $1.7 million, offsetting the decreased interest expense from the 7.35 percent convertible debentures.

INCOME TAXES

The Corporation is a taxable legal entity as at December 31, 2010. The Corporation follows the asset and liability method for accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to any differences between the financial statement carrying amount and the respective tax basis. The future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates anticipated to apply to income in the years in which temporary differences are expected to be realized or reversed. The effect of a change in income tax rates on future income taxes is recognized in income in the period in which the change occurs. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to estimation uncertainty and the interpretations can impact net earnings through the income tax expense and the future income tax assets and liabilities.

At December 31, 2010, future income tax liabilities totaled $91.0 million. These liabilities are determined by applying future statutory income taxes to the differences between the book values and the tax values of the capital assets, deferred partnerships' taxable income, carryforward losses plus other minor differences between book value and tax value. The differences arose either at the time of the initial acquisition of the assets or on subsequent acquisitions. Upon recognition of the future income tax liability, an equivalent amount was allocated to goodwill as the estimated depreciated replacement cost of the acquired assets approximated the book value of those assets. The future income tax reduction of $3.9 million in 2010 represents the change between the book value and tax value of the acquired assets at the future statutory income tax rates plus other minor differences.

PENSION LIABILITY

Pembina maintains a non-contributory defined benefit pension plan together with a defined contribution plan and an unfunded supplemental retirement plan covering 431 employees and 125 retirees. At the end of 2010, the pension plans carried a deficit of $4.9 million, compared to a deficit of $2.1 million at the end of 2009. At December 31, 2010, plan obligations amounted to $94.5 million (2009: $80.9 million), compared to plan assets of $89.6 million (2009: $78.8 million). In 2010, the pension plans' expense was $5.7 million compared to $3.9 million in 2009. Contributions to the pension plans totaled $8 million in 2010 compared to $10 million in 2009.

The accrued pension plans' assets of $20.2 million (2009: $17.8 million) represent the net difference between the amounts required to be expensed in Pembina's financial statements and the amount contributed to the pension plans. In 2011, contributions to the pension plans are expected to be $8 million and pension plans' expenses are anticipated to be $4.7 million. Management anticipates a long-term return on the pension plans' assets of 6.3 percent and an annual increase in compensation of 5 percent, which are consistent with current industry standards.

2010 CASH DISTRIBUTIONS PAID PRIOR TO CORPORATE CONVERSION (1)

Record Date	Payment Date	Taxable Other Income	Non-Taxable Amount	Total
(In dollars)				
January 25, 2010	February 15, 2010	0.10100	0.02900	**0.13**
February 25, 2010	March 15, 2010	0.10100	0.02900	**0.13**
March 25, 2010	April 15, 2010	0.10100	0.02900	**0.13**
April 25, 2010	May 14, 2010	0.10100	0.02900	**0.13**
May 25, 2010	June 15, 2010	0.10100	0.02900	**0.13**
June 25, 2010	July 15, 2010	0.10100	0.02900	**0.13**
July 25, 2010	August 13, 2010	0.10100	0.02900	**0.13**
August 25, 2010	September 15, 2010	0.10100	0.02900	**0.13**
September 25, 2010	October 15, 2010	0.10100	0.02900	**0.13**
		0.90900	0.26100	**1.17**

(1) Pembina paid dividends post corporate conversion for the remainder of 2010 as follows: $0.13 per share paid November 15, 2010 to shareholders of record on October 25, 2010; $0.13 per share paid December 15, 2010 to shareholders of record on November 25, 2010; and $0.13 per share paid January 14, 2011 to shareholders of record on December 31, 2010.

Per the Canadian Income Tax Act, of the total distribution of $1.17 per trust unit declared in 2010 prior to the corporate conversion, $0.909 per trust unit, or 77.70 percent, is taxable as "other income" and $0.261 per trust unit, or 22.30 percent, is non-taxable. For the majority of unitholders, the non-taxable portion was considered a return of capital, which will have reduced the cost base of each trust unit held by such unitholders.

Effective October 1, 2010, all dividends paid on Pembina's common shares are designated as "eligible dividends" for Canadian income tax purposes, and eligible Canadian investors may benefit from an enhanced dividend tax credit.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	2010	2009
Working capital (1)	128.1	(116.5)
Variable rate debt		
Bank debt	246.2	359.1
Variable rate debt swapped to fixed	(200.0)	(200.0)
Total variable rate debt outstanding (average rate of 4.34%)	46.2	159.1
Fixed rate debt		
Senior unsecured notes	642.0	642.0
Senior unsecured term debt	75.0	75.0
Senior secured notes	66.0	73.4
Variable rate debt swapped to fixed	200.0	200.0
Total fixed rate debt outstanding (average rate of 5.66%)	983.0	990.4
Convertible debentures	300.0	36.6
Total debt and debentures outstanding	1,329.2	1,186.1
Cash and unutilized debt facilities	429.2	394.9

(1) Current assets less current liabilities.

In the event of additional significant projects or acquisitions, and based on its successful access to financing in the debt and equity markets during 2010 and 2009, Pembina believes it would likely continue to have access to funds at attractive rates. Management remains satisfied 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 and seek new borrowing and/or issue equity.

Pembina's credit facilities at December 31, 2010 consisted of an unsecured $500 million revolving credit facility due July, 2012 and an operating facility of $50 million due July, 2011 but expected to be renewed on an annual basis. Borrowings bear interest at prime lending rates plus 0 percent to 0.5 percent on the revolving credit facility and prime lending rates plus 0.75 percent to 2.75 percent on the operating facility or Bankers' Acceptances rates, plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina and range from 0.5 percent to 3.75 percent. There are no repayments due over the term of these facilities. As at December 31, 2010, Pembina had $246.2 million drawn on bank debt (including $6.2 million in letters of credit) leaving $429.2 million of cash and unutilized debt facilities (cash as at December 31, 2010: $125.4 million) on the $550 million of established bank facilities. Other debt includes $66 million in fixed rate senior secured notes due 2017; $75 million in senior unsecured term debt due 2014; $175 million in fixed rate senior unsecured notes due 2014; $267 million in senior unsecured notes due 2019; and, $200 million in fixed rate senior unsecured notes due 2021. At December 31, 2010, Pembina had long-term debt (excluding deferred financing fees) of $1,023 million. This long-term debt, together with $303 million fair value of outstanding convertible debentures, resulted in a ratio of total debt to total enterprise value of 26.9 percent at December 31, 2010, compared to a ratio of 30.1 percent at December 31, 2009. See "Non-GAAP Measures" on page 39.

In 2010, $18.8 million in net debt financing costs were recorded ($7.4 million for long-term debt and $11.4 million for convertible debentures), compared to $9.4 million in 2009.

Payments of interest and principal on Pembina bank indebtedness and senior notes rank in priority to monthly dividends to be paid to shareholders.

In November 2010, Pembina announced it filed a Short Form Base Shelf Prospectus with Canadian regulatory authorities in each of the provinces of Canada. Under provisions detailed in the Short Form Base Shelf Prospectus, Pembina may offer and issue, from time-to-time: (i) shares; (ii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of Pembina ("Debt Securities"); (iii) warrants to purchase shares and warrants to purchase Debt Securities; and (iv) subscription receipts of Pembina (collectively, the "Securities") of up to $1 billion aggregate initial offering price of Securities during the 25-month period that the shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more shelf prospectus supplements. On November 24, 2010, Pembina closed the $300 million 5.75 percent convertible debenture offering pursuant to a prospectus supplement filed under the Short Form Base Shelf Prospectus (see page 17).

Pembina considers the maintenance of an investment grade credit rating as critical to its ongoing ability to access capital markets on attractive terms. DBRS Limited rates Pembina and has assigned a senior debt rating of 'BBB high'. These ratings were confirmed on October 5, 2010. On June 30, 2010, Standard & Poor's ("S&P") confirmed its long-term corporate credit and bank loan ratings on Pembina of "BBB+", and its senior secured debt rating of "A-", all with a stable outlook. These ratings are not recommendations to purchase, hold or sell the securities in as much as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

CAPITAL EXPENDITURES

($ millions)	2010	2009
Development capital		
Conventional Pipelines	**28.8**	27.7
Oil Sands & Heavy Oil	**115.6**	82.1
Midstream & Marketing (1)	**22.0**	30.3
Gas Services (1)	**33.5**	279.6
Corporate / other projects	**2.0**	4.0
Total development capital	**201.9**	423.7

(1) 2009 capital expenditures for Gas Services include $274 million to acquire the Cutbank Complex assets on June 2, 2009.

Capital expenditures were $201.9 million in 2010 compared to $423.7 million in 2009. Capital expenditures were higher in 2009 primarily due to the creation of the Gas Services business through the acquisition of the Cutbank Complex and investments to expand Midstream & Marketing's Alberta-based crude oil hubs and truck terminals.

Capital spending in 2010 was allocated as follows:

- Conventional Pipelines – approximately $28.8 million was invested to increase capacity at certain sites and improve the operating performance of the Peace and Drayton Valley Pipeline systems in Alberta and the Western system in British Columbia.
- Oil Sands & Heavy Oil – approximately $109.0 million was invested in right-of-way clearing and grading as well as pipe stringing and bending on the Nipisi and Mitsue Pipeline projects and approximately $6.6 million was invested in new pipeline connections and various projects intended to improve the reliability and productivity of Pembina's oil sands assets.

- Midstream & Marketing – approximately $22.0 million was invested to expand storage, terminal and hub services.
- Gas services – approximately $33.5 million was invested to enhance natural gas gathering, processing and NGL extraction at the Cutbank Complex.
- Spending for corporate and other projects in 2010 was primarily to support and expand the enterprise-wide information technology system that was implemented in 2009.

2011 CAPITAL EXPENDITURES

Pembina plans to invest approximately $470 million in 2011 to expand its operations, with the majority of its spending targeted to complete projects expected to provide new sources of cash flow by the middle of 2011.

Approximately $215 million, nearly half of Pembina's 2011 capital budget, is allocated to complete construction of the Nipisi and Mitsue Pipeline projects. Based on certain assumptions, Pembina's internal projections estimate the two pipelines, which are expected to cost approximately $440 million when complete, will generate approximately $45 million per annum in net operating income (see "Forward-Looking Statements & Information").

Other projects Pembina expects to complete by mid-2011 include the construction of a new facility to extract up to 14,400 bpd of additional NGL from its Cutbank Complex, and the Willesden Green project, which is expected to add 25,000 bpd of throughput capacity to its Drayton Valley Pipeline system.

Pembina's 2011 capital spending plan of approximately $470 million is expected to be allocated as follows:

- Conventional Pipelines – to invest approximately $90 million in 2011, with the majority allocated to Alberta-based pipeline systems, as Pembina moves to strengthen transportation services it provides to producers in the Cardium oil formation (including the Willesden Green project). Investments to enhance system-wide operational reliability and integrity are also being made to enable the expected increase in Pipeline throughput across many of Pembina's systems.
- Oil Sands & Heavy Oil – to invest approximately $220 million. This includes a $215 million investment to complete the Nipisi and Mitsue Pipeline projects, with the remainder being targeted towards oil sands pipeline system upgrades.
- Midstream & Marketing – to invest approximately $65 million during 2011, excluding the recently announced acquisition of terminalling and storage facilities in the Edmonton, Alberta area, which closed on January 7, 2011. A majority of this spending reflects linefill purchases for the Peace pipeline system (which was converted to a single shipper pipeline system for crude and condensate volumes in January 2011) and for the Nipisi and Mitsue Pipelines. The remainder is expected to be used to increase the connectivity of Pembina's Midstream & Marketing assets, including the Pembina Nexus Terminal, and upgrade existing truck and storage terminals.
- Gas Services – to invest approximately $75 million, with funds used to enhance NGL extraction as well as expand the gathering and processing capabilities at the Cutbank Complex.
- The remainder of Pembina's 2011 capital spending budget will be used to complete a variety of corporate-wide projects, primarily allowing for system and technology upgrades.

Pembina continues to examine other investment opportunities which, pending customer support and approval of the Board of Directors, could increase the 2011 capital expenditure budget.

Pembina expects its 2011 capital expenditures to be financed through available cash, undrawn credit facilities and potentially by accessing capital markets.

Pembina's growth strategy supports its plan to maintain dividends of $1.56 per share per year to investors through 2013 (see "Forward-Looking Statements & Information").

CONTRACTUAL OBLIGATIONS

		Payments due by period			
($ millions)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Office and vehicle leases	**72.3**	6.1	14.3	8.0	43.9
Long-term debt (1)	**1,022.9**	8.0	517.7	22.1	475.1
Convertible debentures (1)	**300.0**				300.0
Construction commitments	**345.7**	330.2	15.5		
Asset retirement obligations	**101.5**				101.5
Total contractual obligations	**1,842.4**	344.3	547.5	30.1	920.5

(1) Excluding deferred financing fees.

Construction commitments noted above include projects Pembina is, subject to certain conditions, contractually committed to construct. This includes work to complete the $440 million Nipisi and Mitsue Pipeline projects, which, as of December 31, 2010, had incurred approximately $177 million in expenditures.

The long-term debt commitments include $240 million drawn on the revolving credit facilities due July, 2012; $75 million non-revolving term facility due May 2014; $175 million in fixed rate senior unsecured notes due June 2014; $66 million balance in fixed rate senior secured notes due August 2017; $267 million in fixed rate senior unsecured notes due November 2019; and $200 million in fixed rate senior unsecured notes due September 2021.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the applications of GAAP that have a significant impact on Pembina. Readers are referred to Note 2 of the audited Consolidated Financial Statements as at and for the year ended December 31, 2010 for a description of Pembina's significant accounting policies. The following discussion outlines certain items for which critical estimates must be made in preparing those statements.

DEPRECIATION

Annually, Pembina reviews the estimated useful lives of its property, plant and equipment. Effective January 1, 2010, Pembina revised its estimate of the future useful life of its assets. Overall, the impact of the revision decreased depreciation expense in 2010. Some of the estimates of the economic life of various pipeline systems have been based on projecting future throughputs using historic oil and gas production decline rates and throughputs. The remaining are based on lives of the long-term transportation agreements. Management has assumed these historical trends will continue and that the increased tolls required to offset these decline rates will also remain competitive. However, the actual useful life of the assets may differ from management's original estimates due to higher decline rates, non-competitive tolls and customer requirements. A resulting change in depreciation expense would have a corresponding impact on Pembina's net earnings.

GOODWILL

Goodwill, which represents the estimated tax costs related to the difference between the fair value and the tax basis of acquired assets, is assessed by Pembina for impairment at least annually. Management estimates the fair value of these assets by discounting the projected future cash flows generated by these assets using Pembina's weighted average cost of capital. If it is determined that the fair value of the future cash flows is less than the net book value of the assets at the time of the assessment, an impairment amount would be determined by deducting the fair value of the cash flows from the net book values and applying it against the book balance of goodwill. To date, there has been no impairment of these goodwill values.

ASSET RETIREMENT OBLIGATIONS

Management recognizes the fair value of an estimated asset retirement obligation in the period in which it is incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The estimated fair value is recorded as a long-term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to period earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual cost incurred upon settlement and the recorded liability is recognized as a gain or loss in Pembina's earnings.

ASSET IMPAIRMENT

Management regularly reviews property, plant, equipment and other intangibles to determine if circumstances indicate impairment in the net book value. Impairment is generally considered to have occurred when the fair value of the future cash flows that are to be generated by an asset are less than the net book value of that asset. If impairment has occurred, an impairment charge to earnings is recognized in the amount that the net book value of the asset exceeds its fair value. To date, there has been no impairment in the net book value of Pembina's assets.

PENSIONS AND OTHER POST RETIREMENT BENEFITS

Pembina accrues for its obligations under its employee pension plans and the related costs, net of pension plan assets. The costs of the pension plans and other retirement benefits is actuarially determined using the projected benefit method based on the length of service and reflects management's best estimate of expected pension plan investment performance, salary escalation and retirement ages of employees. The return on the pension plan assets is based on the fair value of those assets. The obligation is discounted using a market interest rate at the beginning of the year on high-quality corporate debt instruments. The pension expense includes the costs of pension benefits earned during the current year, the interest cost on pension obligations, the return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets. The amortization period covers the expected average remaining service lives of employees covered by the pension plans. The actual costs and projections may differ from management's estimates and any change would have a corresponding effect on the net earnings of Pembina.

FUTURE INCOME TAXES

Pembina follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are estimated and recorded for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in net earnings in the period in which the change occurs.

Tax interpretations, regulations and legislations in the various jurisdictions in which Pembina and its subsidiaries operate are subject to change. As such, income taxes are subject to estimation uncertainty and can impact net earnings through the income tax expense and the future income tax assets and liabilities.

CHANGES IN ACCOUNTING PRINCIPLES AND PRACTICES

CRITICAL ACCOUNTING ESTIMATES, CHANGES IN ACCOUNTING PRINCIPLES AND PRACTICES & FUTURE ACCOUNTING CHANGES

There were no changes in Pembina's critical accounting estimates and practices that affected the disclosure of, or the accounting for, its operations for the year ended December 31, 2010.

International Financial Reporting Standards ("IFRS")

In 2008, the Accounting Standards Board ("AcSB") confirmed the January 1, 2011 transition date to IFRS from Canadian GAAP for publicly accountable enterprises. Therefore, Pembina will be preparing Consolidated Financial Statements in accordance with IFRS in 2011, with comparative IFRS information for the 2010 fiscal year.

Pembina commenced its IFRS conversion plan in 2008, which has included regular progress reporting from the IFRS Steering Committee to the senior executive team and the Audit Committee of the Board of Directors.

The IFRS conversion plan has consisted of three phases. A description of each phase and a review of the current status in Pembina's plan to convert to IFRS standards are noted in the following table:

Phase	Key Development	Status
1. Impact Assessment Phase This phase includes an IFRS impact assessment identifying key areas that may be impacted by the transition to IFRS. This includes the impact on accounting policies, information technology, internal controls over financial reporting, disclosure controls and procedures, business activities and the resources required for the conversion.	Impact assessment identifying key areas "in principle" that may be impacted by the transition to IFRS.	Complete
	Full information technology impact assessment.	Complete
	Impact assessment of internal controls over financial reporting and disclosure controls and procedures.	Complete
	Business activity impact assessment including, but not limited to, cost of service agreements, debt agreements, compensation structures and other contracts.	Complete
	Identification of required resources.	Complete
2. Impact Analysis and Evaluation Phase In addition to a full GAAP analysis, each key area identified in the Impact Assessment Phase will be analyzed, with priority being placed on areas assessed with higher impact.	Draft IFRS financial statements.	Substantially complete
	Assessment of impact on financial statement note disclosure.	Substantially complete
	Documentation of impact assessment of additional non-key area IFRS standards.	Complete
	Further analysis of impact on internal controls over financial reporting and disclosure controls and procedures.	Ongoing in 2011
	Information technology implementation of IFRS fixed asset subledger and general ledger to accommodate dual reporting in 2010.	Complete
	Initiation of necessary renegotiations of cost of service agreements, debt agreements, covenants, compensation structures and other agreements.	Complete
3. Implementation and Review Phase This phase involves formal authorization of processes to approve the recommended accounting policy changes. Training will continue during this phase and an opening IFRS-compliant draft balance sheet and financial statement note disclosure will be prepared.	Determination and documentation of IFRS 1 exemptions.	Complete
	Determination and documentation of IFRS Accounting Policies.	Complete
	Complete reconciliation from IFRS to Canadian GAAP equity and income, and preparation and audit of the January 1, 2010 opening balance sheet.	Substantially complete
	Specified audit procedures of identified differences.	In progress
	Training.	Complete

Pembina has identified a number of key differences between the current accounting policies and those it plans to apply in its IFRS statements. The final accounting policy decisions and the estimated quantified differences have been reviewed by the Audit Committee of the Board of Directors, as required per its mandate. The key differences include the following areas, and where possible, include the estimated quantitative impact to the opening deficit:

1) Asset Retirement Obligation ("ARO") – Pembina intends to apply a risk-free rate in the calculation of the ARO liability and the related asset. The application of the lower discount rate will result in an increase in the ARO obligation of approximately $110 to $125 million with the offset to the opening deficit and without a significant impact on the related asset's net book value.

2) Employee Benefits – Pembina intends to apply the IFRS election as it pertains to recognizing the defined benefit pension plans net unamortized actuarial loss in equity on transition to IFRS. As a result, the pension asset will be removed and the opening deficit increased by $20 million.

3) Investment in Associates and Joint Ventures – Under Canadian GAAP, Pembina proportionately consolidated its share of its joint venture, the Fort Saskatchewan Ethylene Storage Facility. Pembina has made a decision to apply the equity accounting method upon transition in respect of the facility. As a result, an equity accounted investee would be recognized for approximately $200 million along with an offsetting decrease in PP&E ($85 million), intangibles ($51 million) and goodwill ($64 million) with no significant adjustment expected to the opening deficit.

4) Share-based Payments – Pembina concluded that its share unit award incentive plan is a cash settled share-based payment for IFRS and must be measured at fair value. As a result, an increased liability of approximately $5 million will be recognized and opening deficit will be increased.

Pembina also concluded that the unit based option plan is a cash settled share-based payment for IFRS and must be measured at fair value. As a result, a liability of approximately $9 million (net of $3 million previously recognized in contributed surplus) will be recognized and the opening deficit will be increased for the difference. The units will be treated as cash settled until Pembina's conversion to a corporation when the share option plan is deemed to be equity settled.

5) Leases/Classification – Similar to Canadian GAAP, IFRS classifies a lease as either a finance lease or an operating lease. Lease classification depends on whether substantially all of the risks and rewards incidental to the leased asset have been transferred to the lessee. Pembina has reviewed its vehicle lease contracts and determined that it is required to classify previously recognized vehicle operating leases as finance leases under IFRS. As a result, an asset and corresponding finance lease liability (approximately $4 to $5 million) would be recognized with no significant adjustment expected to the opening deficit.

6) Income Tax – Pembina is in the process of determining the full impact of the above adjustments to Pembina's future income tax liability.

7) Hedge Accounting – Pembina decided not to apply cash flow hedge accounting for its current interest rate and power derivatives. On transition, Pembina will therefore recognize a loss of $5.8 million before tax in the opening deficit that was previously charged to Other Comprehensive Income.

IFRS 1 "FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS"

In general, an entity is required to apply the principles under IFRS on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. However, IFRS 1 provides entities with a number of one-time exemptions on the full retrospective application of IFRS standards. Pembina expects to elect some of these exemptions and the most significant exemptions are described in the table below. Exemptions (mandatory or optional) that are not applicable, or where no accounting policy change or no significant impact is expected, have not been listed.

Estimates	At the date of transition, Pembina's estimates under IFRS will be consistent with estimates made for the same date under Canadian GAAP (after adjustments to reflect any difference in accounting policies).
Hedge accounting	Pembina will not apply hedge accounting on transition to IFRS.
Business combinations	IFRS 3 requires entities to retrospectively adjust business combinations that occurred prior to January 1, 2010. The IFRS 1 exemption allows entities to apply IFRS 3 prospectively. Pembina will elect the exemption and not restate past business combinations occurring prior to January 1, 2010.
Borrowing costs	This exemption allows entities to prospectively capitalize interest associated with projects for which construction / production / acquisition commences on or after the date of transition thereby avoiding the retrospective reconstruction of such amounts for periods prior to the IFRS transition date. Pembina's current accounting policy is considered to be aligned with IFRS and, hence, Pembina will not need to adopt this exemption.
Employee benefits (actuarial gains and losses)	Pembina will elect this exemption that allows the recognition of Canadian GAAP cumulative unrecognized actuarial losses as at December 31, 2009 in retained earnings thereby avoiding retrospective restatement of the cumulative actuarial gains and losses at December 31, 2009. Going forward, Pembina will recognize future actuarial gains and losses in Other Comprehensive Income and will not apply the corridor method.
Compound financial instruments	IAS 32 Financial Instruments: Presentation requires an entity to split a compound financial instrument at inception into separate liability and equity components. However, under IFRS, a first time adopter need not separate these two components if the liability component is no longer outstanding at the date of transition to IFRS Pembina will elect this exemption with respect to convertible debentures that matured before the adoption of IFRS.
Decommissioning liabilities included in the cost of PP&E	The International Financial Reporting Interpretations Committee ("IFRIC") 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities requires specified changes in a decommissioning, restoration or similar liability to be added to, or deducted from, the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. First time adopters can elect not to comply with these requirements for changes in such liabilities that occurred before the date of IFRS transition. Pembina intends to elect this optional exemption.
Share based payment transactions	Pembina will elect the exemption for all settled share-based payment plans, grants and tranches. Pembina will aplly IFRS 2 share Based Payments, to all stock options granted after November 7, 2002 and vest after December 31, 2009.

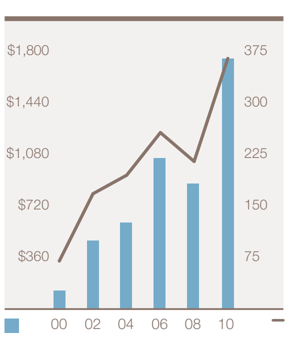
COMMON SHARE INFORMATION (1)

	March 4, 2011 (2)	December 31, 2010	December 31, 2009
($ thousands, except where noted)			
Trading volume and value			
Total volume (shares)	12,375,587	**91,431,769**	80,236,717
Average daily volume (shares)	287,840	**365,727**	319,668
Value traded	272,070	**1,755,005**	1,185,974
Shares outstanding (shares)	167,072,196	**166,876,651**	158,588,699
Closing share price (dollars)	21.76	**21.60**	17.52
Market value			
Shares	3,635,487	**3,604,543**	2,778,479
5.75% convertible debentures	309,000 (3)	**303,750** (4)	
7.35% convertible debentures			53,585 (5)
Market capitalization	3,944,487	**3,908,293**	2,832,064
Senior debt	1,028,034	**1,022,958**	1,140,382
Total enterprise value	4,972,521	**4,931,251**	3,972,448

(1) On October 1, 2010 all trust units and convertible debentures of the Fund outstanding were converted to common shares and convertible debentures of Pembina Pipeline Corporation pursuant to the conversion of the Fund to a corporate structure.
(2) Based on 43 trading days from January 1, 2011 to March 4, 2011 inclusive.
(3) $300 million principal amount of 5.75 percent convertible debentures outstanding at a market price of $103.00 at March 4, 2011.
(4) $300 million principal amount of 5.75 percent convertible debentures outstanding at a market price of $101.25 at December 31, 2010.
(5) $38.3 million principal amount of 7.35 percent convertible debentures outstanding at a market price of $140 at December 31, 2009.

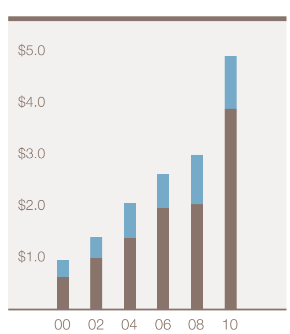
Pembina's shares, along with the 5.75 percent convertible debentures, are publicly traded on the Toronto Stock Exchange. The total market value of Pembina's outstanding securities was $4.9 billion at December 31, 2010. Issued and outstanding shares of Pembina rose to 166.9 million by the end of 2010, compared to 158.6 million in 2009. During 2010, 2.97 million shares were issued through the conversion of the 7.35 percent convertible debentures which matured December 31, 2010 (with a remaining outstanding amount of $1.2 million paid on maturity), 1.97 million shares were issued upon the exercise of options by certain officers and other employees of Pembina, and 0.42 million shares were issued under the Premium Dividend™ and Dividend Reinvestment Plan, which was suspended effective April 25, 2010.

Liquid Investment



Annual Value Traded ($ millions)
Average Daily Volume (thousands of shares)

Total Enterprise Value (1)



Debt ($ billions)
Equity ($ billions)

(1) Refer to "Non-GAAP Measures" on page 39.

RISK FACTORS

Pembina's value proposition is based on maintaining a very low risk profile. In addition to contractually eliminating the majority of its business risk, Pembina has formal risk management policies, procedures and systems designed to mitigate any residual risks, such as market price risk, credit risk and operational risk. Certain of the risks associated with Pembina's business are discussed below, and for a full discussion of these and other risk factors affecting the business and operation of Pembina and its operating subsidiaries, readers are referred to Pembina's Annual Information Form, an electronic copy of which is available at **www.pembina.com** or on Pembina's SEDAR profile at **www.sedar.com**. Shareholders and prospective investors should carefully consider these risk factors before investing in Pembina's securities, as each of these risks may negatively affect the trading price of Pembina's securities, the amount of dividends paid to shareholders and the ability of Pembina to fund its debt obligations, including debt obligations under its outstanding convertible debentures and any other debt securities that Pembina may issue from time to time.

MARKET RISKS

CREDIT RISK

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

DEBT SERVICE

At the end of 2010, Pembina had exposure to floating interest rates on $46.2 million in debt. A 0.25 percent change in short-term interest rates would have an annualized impact of $0.3 million on net cash flows. Variations in interest rates and scheduled principal repayments, if required under the terms of the banking agreements could result in significant changes in the amounts required to be applied to debt service before payment of any dividends to Pembina's shareholders. Certain covenants in the agreements with the lenders may also limit payments by Pembina's operating subsidiaries. Although Pembina believes that the existing credit facilities are sufficient, there can be no assurance that the amount will be adequate for Pembina's financial obligations or that additional funds can be obtained. Holders of senior secured notes, with a balance of $66 million at December 31, 2010, have been provided with security over substantially all of the assets of Pembina Pipeline Corporation. If Pembina Pipeline Corporation becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, the lenders will rank senior to Pembina's shareholders and outstanding convertible debentures. As a result, dividends from Pembina to shareholders and the market value of Pembina's securities would be adversely affected by such circumstances.

CAPITAL RESOURCES

The timing and amount of Pembina's capital expenditures, and the ability of Pembina to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that Pembina pays to shareholders. Future acquisitions, expansions of Pembina's pipeline systems and midstream operations, other capital expenditures, including the capital expenditures that Pembina has committed to in respect of the Nipisi and Mitsue Pipelines, and the repayment or refinancing of existing debt as it becomes due will be financed from sources such as cash generated from operations, the issuance of additional shares or other securities (including debt securities) of Pembina, and borrowings. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Pembina, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional shares or other securities or the availability of additional credit facilities, become limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of Pembina to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, may be impaired. To the extent Pembina is required to use cash flow to finance capital expenditures or acquisitions or to repay existing debt as it becomes due, the level of dividends to shareholders of Pembina may be reduced.

GENERAL BUSINESS RISKS

EXECUTION RISK

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

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

OPERATIONAL RISKS

Pipeline leaks are an inherent risk of Pembina's operations. Other operating risks include: the breakdown or failure of equipment, information systems or processes; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); spills at truck terminals and hubs; failure to maintain adequate supplies of spare parts; operator error; labour disputes; disputes with interconnected facilities and carriers; and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs; and, other similar events, many of which are beyond the control of Pembina. The occurrence or continuance of any of these events could increase the cost of operating Pembina's pipelines and facilities or reduce revenues, thereby impacting earnings.

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

RESERVE REPLACEMENT & THROUGHPUT

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

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

TERMINALS, STORAGE AND HUB SERVICES

The value potential associated with terminal, storage and hub services is dependent upon the ability of Pembina to: provide connections to both downstream pipelines and end-use markets; understand the value of the commodities transported and terminalled; provide flexibility and a variety of storage options; and a liquid, responsive, forward commodity market. Part of the value of various grades of crude oil is their respective differentials. These differentials are based primarily on the refinery yields, local supply-demand dynamics and liquidity. Pembina actively monitors market conditions and stream values to target revenue opportunities.

ENVIRONMENTAL COSTS & LIABILITIES

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

While Pembina believes its current operations comply with all applicable environmental and safety regulations, there can be no assurance that substantial costs or liabilities will not be incurred. Moreover, it is possible other developments, such as increasingly strict environmental and safety laws, regulation and enforcement or claims for damages to persons or property resulting from Pembina's operations, could result in significant costs and liabilities to Pembina. If Pembina were not able to recover the resulting costs through insurance or revenue, cash flow available to pay dividends to shareholders or to service obligations under its convertible debentures could be adversely affected. While Pembina maintains insurance to cover damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of this insurance may limit its availability in respect of certain occurrences unless they are discovered within fixed timed periods. These periods can range from 72 hours to seven days. If Pembina is unaware of or is unable to locate a spill within the relevant time period, insurance coverage may not be available. However, Pembina believes it has adequate leak detection systems in place to detect and monitor a significant spill.

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

REPUTATION

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

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

COMPETITION

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

REGULATION

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

PIPELINE ABANDONMENT COSTS

Pembina is responsible for complying with all applicable laws and regulations regarding the abandonment of its pipeline assets at the end of their economic life, and such abandonment costs may be substantial. The proceeds of the disposition of certain assets associated with Pembina's pipeline systems, including, in respect of certain pipeline systems, linefill would be available to offset abandonment costs.

It is not possible to definitively predict abandonment costs since they will be a function of regulatory requirements at the time, and the value of Pembina's assets, including linefill, may be more or less than the abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to pay for future abandonment costs. Such reserves could decrease cash flow available for dividends to shareholders and to service obligations under Pembina's outstanding convertible debentures.

On May 26, 2009, the National Energy Board ("NEB") issued its Reasons for Decision RH-2-2008 with respect to the Land Matters Consultation Initiative – Stream 3, which dealt with financial issues of pipeline abandonment for pipelines under the NEB's jurisdiction. The NEB decided in principle to set an ultimate goal of having all companies under its jurisdiction begin setting aside funds for the abandonment of pipelines no later than five years from the date of the decision. The NEB recommended an action plan to achieve this ultimate goal that would require pipelines to submit to the NEB preliminary cost estimates and fund collection mechanisms for pipeline abandonment prior to the setting aside of funds.

NIPISI & MITSUE PIPELINES

Pembina's Nipisi and Mitsue Pipelines are currently under development, and Pembina cannot provide any assurances as to the successful completion of these pipelines as the project is dependent on numerous factors outside of Pembina's control, including construction costs that may change depending on supply, demand and/or inflation. Under the agreements governing the construction and operation of the Nipisi and Mitsue Pipelines, Pembina is obligated to construct the pipelines and bears the risk for any cost overruns. While Pembina is not currently aware of any significant cost overruns at the date hereof, any such cost overruns in the future could reduce Pembina's expected return on the Nipisi and Mitsue Pipelines and adversely affect results of operations which, in turn, could reduce the level of dividends to shareholders. See "Risk Factors – Capital Resources" on page 33.

STRUCTURAL INTEGRITY OF THE STORAGE FACILITY

The operation of the Storage Facility is subject to risks related to the nature of the salt caverns that are currently used to store ethylene. Three of the five ethylene storage caverns in the Storage Facility are currently out of service, with no material impact to Pembina's revenues in 2010, and it is unlikely that they will be put back into ethylene storage service. The joint owners of this facility are investigating other potential uses for these caverns as well as examining alternative capacity options for ethylene storage available elsewhere on the jointly owned property. If arrangements with respect to alternative uses and additional ethylene storage capacity are not entered into on terms favourable to Pembina, or if other disruptions to the operations of the caverns occur and reduce the storage capacity of the Storage Facility for an extended period of time, this would result in a reduction in the revenue received by Pembina from its ownership interest in the Storage Facility and could potentially decrease cash flow available for dividends to shareholders and to service obligations under the convertible debentures and Pembina's other debt obligations.

In addition, the Storage Limited Partnership may be required to make capital expenditures to ameliorate any such storage disruptions in excess of the obligations of Dow Canada and NOVA Chemicals to contribute to capital expenses under the Storage Agreement which could also result in a reduction in the revenue received by Pembina from its ownership interest in the Storage Facility.

SELECT QUARTERLY INFORMATION

	2010				2009			
($ millions, except where noted)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**296.5**	**272.1**	**391.8**	**294.6**	256.4	211. 9	185.5	158.0
Less: product purchases	**161.7**	**148.4**	**261.9**	**163.1**	127.2	80.8	64.4	41.9
Net revenue (1)	**134.8**	**123.7**	**129.9**	**131.5**	129.2	131.1	121.1	116.1
Operating expenses	**44.1**	**38.7**	**39.1**	**38.3**	39.7	39.6	35.8	44.1
Net operating income (1)	**90.7**	**85.0**	**90.8**	**93.2**	89.5	91.5	85.3	72.0
EBITDA (1)	**79.8**	**73.7**	**79.1**	**83.2**	72.5	80.0	73.1	61.0
Cash flow from operating activities	**54.0**	**65.7**	**68.1**	**67.3**	72.0	62.2	49.2	41.2
Cash flow from operating activities per share ($ per share)	**0.32**	**0.40**	**0.42**	**0.42**	0.46	0.40	0.33	0.30
Net earnings	**51.5**	**42.9**	**41.2**	**51.1**	52.9	44.7	36.2	28.3
Net earnings per share ($ per share)								
Basic	**0.31**	**0.26**	**0.25**	**0.32**	0.34	0.29	0.25	0.21
Diluted	**0.31**	**0.26**	**0.25**	**0.31**	0.33	0.29	0.24	0.21
Dividends	**64.6**	**64.0**	**63.8**	**62.8**	61.4	60.2	57.5	53.2
Dividends (per share)								
Basic	**0.3900**	**0.3900**	**0.3900**	**0.3900**	0.3900	0.3900	0.3899	0.3900
Diluted	**0.3898**	**0.3858**	**0.3861**	**0.3836**	0.3848	0.3849	0.3847	0.3843
Shares outstanding (millions)								
Weighted average (basic)	**165.0**	**164.0**	**163.2**	**161.8**	157.5	154.4	147.5	136.3
Weighted average (diluted)	**165.7**	**166.9**	**166.2**	**165.2**	160.9	157.8	150.9	139.8
End of period	**166.9**	**164.5**	**163.6**	**162.2**	158.6	155.4	152.6	137.3

(1) Refer to "Non-GAAP Measures" on page 39.

CONSOLIDATED FOURTH QUARTER RESULTS

Revenue, net of product purchases, was $134.8 million in the fourth quarter of 2010 compared to $129.2 million in the fourth quarter of 2009. The increase was primarily the result of gains generated by the Conventional Pipelines and Gas Services businesses, which realized improvements in revenue due to higher volumes associated with increased activity in their respective regions. Despite apportionment issues on third-party pipelines, the Conventional Pipelines business' throughputs were fairly consistent quarter-over-quarter. December 2010 exit volumes on the Drayton Valley and Peace Pipeline systems were over 100,000 bpd and 170,000 bpd, respectively, compared to 80,000 bpd and 150,000 bpd, respectively, in 2009. The increase in volumes on these systems is primarily attributable to increased industry activity associated with the Cardium oil formation. See page 13 for further information. The Gas Services business also saw an increase in volumes processed at the Cutbank Complex (227.8 mmcf/d in the fourth quarter of 2010 compared to 206.1 mmcf/d in the fourth quarter of 2009) associated with increased production in the area. These gains were offset by decreased revenue generated by Midstream & Marketing. Results in this business were challenged by tighter margins as well as apportionment issues on third-party pipelines which impacted commodity prices and restricted transportation volumes during the fourth quarter of 2010 on certain of Pembina's systems.

Operating expenses were $44.1 million during the fourth quarter of 2010 compared to $39.7 million in the fourth quarter of 2009. The increase was primarily due to several integrity initiatives undertaken in the Conventional Pipelines business during the fourth quarter and increased expenses associated with handling more volumes in the Gas Services business.

Net operating income was $90.7 million in the fourth quarter of 2010 compared to $89.5 million in 2009. The increase was primarily the result of the same factors that positively impacted revenues.

Net earnings for the fourth quarter of 2010 were $51.5 million compared with $52.9 million in 2009. The decrease is primarily related to higher depreciation and amortization, accretion, overall interest expense, and income taxes. This was offset by a decrease in general and administrative expenses and higher net operating income.

NON-GAAP MEASURES

Throughout this MD&A, Pembina has used the following terms that are not defined by GAAP but are used by management to evaluate performance of Pembina and its businesses. Since certain non-GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled to their nearest GAAP measure.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is commonly used by management, investors and creditors in the calculation of ratios for assessing leverage and financial performance and is calculated as net income plus interest, taxes, accretion, depreciation and amortization.

Total enterprise value is used by management and the investment community to assess the overall market value of the business. Total enterprise value is calculated based on the market value of shares and convertible debentures at a specific date plus senior debt.

Net revenue is defined by Pembina as revenue net of product purchases.

Net operating income is calculated by subtracting operating expenses from revenue. Net operating income is used to assess the performance of specific business units before general and administrative expenses and other non-operating expenses. This measure, together with others, is used by management and the investment community to assess the source and sustainability of cash dividends.

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

MATERIALITY

For the purposes of the MD&A and the financial statements, and for the purposes of general disclosure to the investment community, Pembina considers an item or event to be material if its omission or misstatement or an aggregate of such items or events, would reasonably be expected to result in a significant change in the market price or value of any of Pembina's securities, or would influence or change an investor's decision to buy, sell or hold Pembina's securities. In order to determine what information would be considered as material, management's review includes, but is not limited to, determination as to an item or event's estimated effect on income and operating expenses, future impact to operations and overall returns to Pembina. Pembina's Board of Directors, Audit Committee, auditors and outside legal counsel are consulted on an as needed basis with respect to the required disclosure applicable to certain matters.

ADDITIONAL INFORMATION

Additional information relating to Pembina Pipeline Corporation, including Pembina's 2010 Annual Information Form to be filed March 31, 2011 and financial statements, can be found at **www.pembina.com** and on Pembina's profile on the SEDAR website at **www.sedar.com**.

FORWARD-LOOKING STATEMENTS & INFORMATION

Certain statements contained in this MD&A and the annual report constitute "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "forward-looking statements").

All forward-looking statements are based on Pembina's current expectations, estimates, projections, beliefs and assumptions based on information available at the time the statement was made and in light of its experience and its perception of historical trends. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan", "intend", "design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential" and similar expressions are intended to identify forward-looking statements.

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

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

- the future levels of cash dividends that Pembina intends to pay to its shareholders, including the ability of Pembina to maintain its current level of cash dividends to equity holders through 2013;
- the estimated future net operating income contributions from the Nipisi and Mitsue Pipelines, once such projects are completed;
- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, including in relation to the Pembina Nexus Terminal, the Nipisi and Mitsue Pipeline projects, the NGL extraction facility at the Cutbank Complex, the proposed expansion plans to strengthen Pembina's transportation service options that it provides to producers developing the Cardium oil formation located in Central Alberta and other facilities and energy infrastructure;
- pipeline, processing and storage facility and system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- Pembina's strategy and the development of new business initiatives;
- expectations regarding Pembina's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under governmental regulatory regimes including environmental regulations and related abandonment and reclamation obligations;
- future G&A expenses at Pembina;
- increased throughput potential due to increased activity and new connections and other initiatives on the Conventional Pipelines;
- future cash flows, potential revenue and cash flow enhancements across Pembina's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash dividends;
- operating risks (including the amount of future liabilities related to environmental incidents and asset retirement obligations) and related insurance coverage and inspection and integrity systems; and
- competitive conditions.

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

- the success of Pembina's operations;
- prevailing commodity prices and exchange rates;
- the availability of capital to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs;
- in respect of the estimated future net operating income contribution from the Nipisi and Mitsue Pipelines, the in-service date for the Nipisi and Mitsue pipelines will be in mid-2011; future tolls in respect of such pipelines will be consistent with internal projections; counterparties will comply with contracts in a timely manner; there are no unforeseen events preventing the performance of contracts by Pembina; there are no unforeseen construction costs related to the Nipisi and Mitsue Pipelines; and there are no unforeseen material costs relating to the pipeline systems which are not recoverable from shippers;

- in respect of the NGL extraction facility at the Cutbank Complex and its estimated in-service date of July 2011; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs related to the NGL extraction facility; and that there are no unforeseen material costs relating to the NGL extraction facility which are not recoverable from customers;
- the future exploration for and production of oil, NGLs and natural gas in the capture area around Pembina's conventional and midstream and marketing assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;
- prevailing regulatory, tax and environmental laws and regulations.

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

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

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

Management of Pembina approved the financial outlook contained herein as of the date of this document. The purpose of the financial outlook contained herein is to give the reader an indication of the potential effects that the Nipisi and Mitsue pipelines may have on Pembina's operating results, once completed.

Readers should be aware that the information contained in the financial outlook contained herein may not be appropriate for other purposes.

MANAGEMENT'S RESPONSIBILITY

The Consolidated Financial Statements of Pembina Pipeline Corporation (the "Corporation") are the responsibility of Pembina's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

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

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

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

KPMG LLP, the independent auditors, have audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

Peter D. Robertson
Vice President Finance and Chief Financial Officer
Pembina Pipeline Corporation

March 8, 2011

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PEMBINA PIPELINE CORPORATION

We have audited the accompanying consolidated financial statements of Pembina Pipeline Corporation ("the Entity"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of income, comprehensive income, retained earnings, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

OPINION

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2010 and 2009, and the consolidated results of its operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 8, 2011

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009 ($ thousands)	2010	2009
Assets		
Current assets:		
Cash and short-term investments	**125,397**	53,927
Accounts receivable and other	**105,474**	83,244
Inventory	**26,099**	18,998
	256,970	156,169
Property, plant and equipment (Note 4)	**2,172,450**	2,045,917
Goodwill and other (Note 5)	**376,988**	379,039
	2,806,408	2,581,125
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**99,228**	57,997
Dividends payable	**21,694**	20,616
Current portion of long-term debt (Note 6)	**7,981**	157,423
Convertible debentures (Note 7)		36,640
	128,903	272,676
Long-term debt (Note 6)	**1,007,620**	973,522
Convertible debentures (Note 7)	**288,635**	
Derivative financial instruments (Note 15)	**8,647**	5,481
Asset retirement obligations (Note 9)	**101,437**	104,204
Future income taxes (Note 10)	**91,006**	95,870
	1,626,248	1,451,753
Shareholders' equity:		
Shareholders' capital (Note 11 and Note 16)	**1,782,804**	1,660,795
Deficit	**(595,533)**	(527,082)
Accumulated other comprehensive income (loss)	**(7,111)**	(4,341)
	1,180,160	1,129,372
Commitments (Note 17)		
Subsequent event (Note 18)	**2,806,408**	2,581,125

See accompanying notes to the financial statements.

On behalf of the Board of Pembina Pipeline Corporation:

Lorne B. Gordon
Director
Chairman of the Board

Robert F. Taylor
Director
Chairman of the Audit Committee

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

Years ended December 31, 2010 and 2009 ($ thousands, except where noted)	2010	2009
Revenues:		
Conventional Pipelines	**261,617**	255,022
Oil Sands & Heavy Oil	**118,420**	115,565
Midstream & Marketing	**813,567**	408,232
Gas Services	**61,498**	32,977
	1,255,102	811,796
Expenses:		
Operations	**160,147**	159,162
Product purchases	**735,223**	314,372
General and administrative	**44,086**	51,367
Depreciation and amortization (Note 4 and Note 5)	**66,891**	69,822
Accretion on asset retirement obligations (Note 9)	**7,068**	6,636
Other	**(189)**	317
	1,013,226	601,676
Earnings before interest and taxes	**241,876**	210,120
Interest on long-term debt (Note 6)	**56,052**	48,869
Interest on convertible debentures (Note 7)	**4,116**	3,025
Earnings before taxes	**181,708**	158,226
Future income tax reduction (Note 10)	**(3,934)**	(3,852)
Current income tax reduction (Note 10)	**(1,058)**	–
Net earnings	**186,700**	162,078
Deficit, beginning of year	**(527,082)**	(456,856)
Dividends	**(255,151)**	(232,304)
Deficit, end of year	**(595,533)**	(527,082)
Net earnings per share – basic (dollars) (Note 13)	**1.14**	1.09
Net earnings per share – diluted (dollars) (Note 13)	**1.14**	1.07

See accompanying notes to the financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2010 and 2009 ($ thousands)	2010	2009
Net earnings for the year	**186,700**	162,078
Other comprehensive income (loss):		
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $0.9 million and $1.9 million, respectively	**(2,770)**	6,267
Total comprehensive income	**183,930**	168,345
Accumulated other comprehensive income (loss):		
Opening balance, net of tax of $1.4 million and $3.4 million, respectively	**(4,341)**	(10,608)
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $0.9 million and $1.9 million, respectively	**(2,770)**	6,267
Accumulated other comprehensive income (loss)	**(7,111)**	(4,341)

See accompanying notes to the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009 ($ thousands)	2010	2009
Cash provided by (used in):		
Operating activities:		
Net earnings	186,700	162,078
Items not involving cash:		
Depreciation and amortization	66,891	69,822
Accretion on asset retirement obligations	7,068	6,636
Future income tax reduction	(3,934)	(3,852)
Current income tax reduction	(1,058)	
Employee future benefits expense (Note 8)	5,668	3,878
Share-based compensation expense (Note 12)	449	464
Other	402	(672)
Employee future benefits contributions (Note 8)	(8,033)	(10,033)
Changes in non-cash working capital (Note 14)	968	(3,706)
Cash flow from operating activities	255,121	224,615
Financing activities:		
Bank borrowings	42,079	157,149
Repayment of Senior Secured Notes	(7,423)	(6,904)
Issue of senior debt		342,000
Debt repayment	(150,000)	(275,000)
Issue of debentures	300,000	
Debenture repayment	(1,207)	
Debenture issuance costs	(11,365)	
Share issue costs	(139)	
Issue of common shares for cash		156,222
Issue of common shares on exercise of options (Note 11)	30,369	6,569
Issue of common shares under Dividend Reinvestment Plan (Note 11)	55,898	142,621
Cash dividends – current year	(233,457)	(211,686)
Cash dividends – prior year	(20,617)	(17,511)
Cash flow from financing activities	4,138	293,460
Investing activities:		
Capital expenditures	(198,722)	(143,830)
Acquisition of Cutbank Complex assets		(297,043)
Changes in non-cash working capital (Note 14)	10,933	(36,913)
Cash flow from investing activities	(187,789)	(477,786)
Change in cash	71,470	40,289
Cash, beginning of year	53,927	13,638
Cash, end of year	125,397	53,927
Other cash disclosures:		
Interest on long-term debt paid	(58,709)	(43,587)
Interest on convertible debentures paid	(1,849)	(2,932)
Interest capitalized	(6,358)	(1,414)

See accompanying notes to the financial statements.

1. STRUCTURE OF THE CORPORATION

On October 1, 2010 Pembina Pipeline Corporation ("Pembina" or the "Corporation"), an energy transportation and service provider, completed the conversion from an income trust to a corporation pursuant to a plan of arrangement (the "Arrangement") under the Alberta Business Corporations Act. Pursuant to the Arrangement, unitholders exchanged each trust unit of Pembina Pipeline Income Fund (the "Fund") for a common share of Pembina Pipeline Corporation on a one-for-one basis.

The Consolidated Financial Statements follow the continuity of interest basis of accounting whereby the Corporation is considered a continuation of the Fund. As a result, the comparative balance sheet, statements of earnings and deficit, statements of comprehensive income (loss) and cash flows include the Fund's results of operations for the period up to and including September 30, 2010 and the Corporation's results of operations thereafter. All references to shares, dividends and shareholders in the Consolidated Financial Statements and notes pertain to common shares and common shareholders subsequent to the conversion and units, distributions and unitholders prior to the conversion.

Pembina owns or has interests in pipelines and related facilities to transport crude oil, condensate and natural gas liquids ("NGL"), gather and process natural gas and provide midstream services in Alberta and British Columbia ("BC").

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of management, these Consolidated Financial Statements have been properly prepared within reasonable limits of materiality and within the framework of GAAP for non rate-regulated entities. Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Regulation

The pipeline systems in Alberta and British Columbia are subject to the respective provincial utilities board authority over matters such as construction, rates and rate setting agreements with customers. Pipelines crossing provincial borders are also subject to the authority of the National Energy Board. The Alberta pipelines generally operate under market tolling arrangements and the utilities board will not review rates unless it receives a complaint. Rates on the BC pipelines require provincial utility board approval and certain period costs are deferred and recovered in the calculation of tolls over a five-year period as directed by the regulator.

Principles of consolidation

These Consolidated Financial Statements include the accounts of the Corporation, its wholly owned subsidiary companies and partnerships, and its proportionate share of the accounts of joint ventures and partnerships. The Corporation does not utilize off balance sheet arrangements with unconsolidated entities.

Cash and cash equivalents

Short-term investments with original maturities of 90 days or less are considered to be cash equivalents and are recorded at cost which approximates market value.

Inventories

Inventories, primarily consisting of crude oil inventory for storage, are measured at lower of cost and net realizable value. Cost is determined by the current month weighted average purchase price or the First In, First Out ("FIFO") valuation method.

Property, plant and equipment

Property, plant and equipment consist primarily of conventional pipelines, linefill and gathering systems, oil sands and heavy oil pipelines, natural gas processing plants and marketing storage facilities, which are all carried at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of all projects with some major projects spanning over several years.

Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 33 years (an average of 27.5 years) or declining balance method at rates ranging from 3 percent to 33 percent per annum (an average rate of 5.3 percent per annum). Storage assets and facilities are depreciated using the straight line method over 40 years. These rates are established to depreciate remaining net book value over the economic lives or contractual duration of the related assets.

Intangibles

Goodwill

Goodwill represents the excess, if any, of the consideration paid over the fair value of identifiable assets and liabilities acquired in a business combination and often arises as a result of the recognition of a future income tax liability related to the difference between the fair value and the tax base of acquired assets. Goodwill is not amortized but, at a minimum, is subject to an annual impairment test and an impairment loss is recognized when the carrying amount of goodwill exceeds its fair value. The measurement methodology used to evaluate whether there is a permanent impairment in the value of goodwill is based on discounted cash flows.

Other Intangibles

Other intangible assets acquired individually or as part of a group of assets are recognized and measured at cost. Intangibles are amortized using the straight line method over 20 to 33 years.

Impairment of long-lived assets

Management reviews property, plant and equipment and intangibles to determine if circumstances indicate impairment in the carrying value. If impairment has occurred, an impairment charge to earnings is recognized for the amount the carrying value of the asset exceeds its estimated fair value based on undiscounted cash flows.

Employee pension plans

The Corporation maintains a defined contribution plan, and a non-contributory defined benefit pension plan covering its employees along with an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. For the defined contribution plan, the contributions made during the period are recognized as costs in exchange for employee service rendered during the same period. The cost of pension benefits earned by employees in the defined benefit plans are charged to earnings as services are rendered using the projected benefit method pro-rated on service. The cost of the defined benefit plans reflects management's estimate of the rate of return on pension plan assets, salary escalations, mortality and other factors affecting the payments of future benefits. Adjustments arising out of plan amendments, changes in assumptions and experience gains and losses are normally amortized, using the corridor method, over the expected remaining average service life of the employee group. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10 percent of the greater of the accrued benefit obligation and the value of the plan assets. The market value of assets is used for all calculations.

Asset retirement obligations

The fair value of the estimated asset retirement obligations are recognized in the period in which they are incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The fair value is recorded as a long-term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual costs incurred upon settlement and the recorded liability is recognized as a gain or loss in earnings.

Income taxes

The Corporation follows the asset and liability method for accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to any differences between the financial statement carrying amount and the respective tax basis. The future income tax assets and liabilities are measured using the enacted or substantively enacted rates anticipated to apply to income in the years in which temporary differences are expected to be realized or reversed. The effect of a change in income tax rates on future income taxes is recognized in income in the period in which the change occurs.

Revenue recognition

Pipeline transportation revenues are recorded when the services have been provided. For rate or contractually regulated pipeline operations, revenue is recognized in a manner that is consistent with the underlying rate design as mandated by agreement or regulatory authority.

Certain pipelines have been designated single-shipper lines where producers must either sell their product at the inlet point at which point revenue is recognized or are considered buy/sell transactions where the producer sells its product at the inlet point and repurchases it at the delivery point for the inlet price paid plus an agreed-upon differential on a pre-arranged basis. The buy/sell transactions are recorded when the services have been provided and recognized on a net basis in the statement of earnings. Product purchases for terminalling, storage and hub services are recognized on a gross basis in the statement of earnings. Product sales are recognized when the product is delivered to a customer.

Storage revenue is recognized when the service is provided consistent with the rate contracted with the customer.

Share-based compensation

Obligations for options granted under Pembina's stock option plan described in Note 12 are accrued as compensation expense over the vesting period using the fair value method. Under the fair value method, the options are measured at fair value at the grant date and the cost is recognized in earnings over the vesting period using the Black-Scholes pricing model. Consideration paid on exercise of the options is credited to shareholders' equity. Forfeitures of stock options result from the expiration or from the resignation, retirement or termination of the option holder. Stock options become null and void upon forfeiture. The Corporation estimates the forfeiture rate when calculating compensation expense, adjusting for actual forfeitures throughout the term to maturity.

The Corporation has a Restricted Share Unit plan as described in Note 12. As participants in this plan are entitled to a cash payment on a fixed vesting date, the Corporation is using the intrinsic value method to account for the compensation cost of this plan. Changes in intrinsic value result in a change in the measurement of compensation cost. As awards vest at the end of the vesting period, compensation cost is recognized as incurred.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI") such as revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income but not in net earnings. The Corporation's Consolidated Financial Statements include a Consolidated Statements of Comprehensive Income (Loss). Within the Consolidated Statements of Comprehensive Income (Loss), the Corporation has included an accumulated comprehensive income continuity which shows the cumulative changes in other comprehensive income and the year-end balance is presented as a separate category in shareholders' equity. The other comprehensive income is comprised of the unrealized gains or losses on derivative financial instruments designated as cash flow hedges.

The rules require the recording of hedging derivatives at fair value. The unrealized gains and losses in the fair value of cash flow hedging instruments are recorded in other comprehensive income, net of tax, until recognized in earnings. The fair value of the cash flow hedges are recorded on the balance sheet as assets or liabilities with changes in the fair value reflected in accumulated comprehensive income in shareholders' equity with no impact on net earnings for the period. Gains and losses on derivatives that are not designated as cash flow hedges and any gains and losses after the termination of hedging relationships are charged to earnings as they arise.

Risk management

The Corporation uses derivative financial instruments to manage exposure to interest rates, power costs, crude oil or NGL and foreign exchange fluctuations. The Corporation does not trade financial instruments or use them for speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions for all financial instruments designated as cash flow hedges. The Corporation also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation has interest rate swaps and power swap hedges that are both designated as cash flow hedges. These cash flow hedges are used to manage the potential increase or decrease in interest expense on floating rate debt instruments and the price of non-transmission power charges. The fair value of these cash flow hedges are recorded on the balance sheet with changes in the fair value reflected in accumulated comprehensive income. The Corporation, from time to time, enters into commodity swap hedges and foreign exchange hedges but the swaps have an insignificant value and are recorded in current year earnings.

All derivatives are recorded on the balance sheet at fair value, with the exception of non-financial derivatives that were entered into and continue to be held for the purpose of receipt or delivery in accordance with the Corporation's expected purchase, sale or usage requirements.

Common share calculations

The Corporation applies the treasury stock method to determine the dilutive effect of convertible common share rights and options ("convertible instruments"). Under the treasury stock method, outstanding and exercisable convertible instruments that will have a dilutive effect are included in fully diluted calculations.

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

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board ("AcSB") confirmed in February 2008 that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2011. The Corporation has developed a conversion plan to complete the transition by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Corporation's Consolidated Financial Statements is disclosed in the Management Discussion and Analysis.

3. BUSINESS SEGMENTS

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

Conventional Pipelines consists of the tariff based operations of pipelines and related facilities to deliver crude oil, condensate and NGL in Alberta and BC.

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

Midstream & Marketing consists of the Corporation's direct and indirect interest in a storage operation, its direct interests in terminalling, storage and hub services under a mixture of short, medium and long-term contractual arrangements.

Gas Services consists of natural gas gathering and processing facilities, including three gas plants, nine compressor stations and over 300 kilometres of gathering systems.

The financial results of the business segments are as follows:

	2010					
($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	261,617	118,420				380,037
Terminalling, storage and hub services			813,567			813,567
Gas Services				61,498		61,498
Revenue before expenses	261,617	118,420	813,567	61,498		1,255,102
Expenses:						
Operations	91,922	40,243	10,257	17,725		160,147
Product purchases			735,223			735,223
General and administrative	3,684	2,918	3,686	2,725	31,073	44,086
Depreciation and amortization	26,137	22,748	8,001	8,401	1,604	66,891
Accretion on asset retirement obligations	5,866	659		543		7,068
Other	169	175	(306)	(2)	(225)	(189)
	127,778	66,743	756,861	29,392	32,452	1,013,226
Earnings (loss) before interest and taxes	133,839	51,677	56,706	32,106	(32,452)	241,876
Property, plant and equipment[2]	787,982	857,594	210,360	307,602	8,912	2,172,450
Goodwill and other	194,370	28,300	112,191	21,932	20,195	376,988

(1) 5.7 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) Included in property, plant and equipment are Assets Under Construction of $278.6 million, which includes $176.8 million for Nipisi and Mitsue Pipelines.

($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
	2009					
Revenue:						
Pipeline transportation	255,022	115,565				370,587
Terminalling, storage and hub services			408,232			408,232
Gas Services				32,977		32,977
Revenue before expenses	255,022	115,565	408,232	32,977		811,796
Expenses:						
Operations	104,556	34,006	10,620	9,980		159,162
Product purchases			314,372			314,372
General and administrative	4,136	2,434	2,423	1,011	41,363	51,367
Depreciation and amortization	28,577	23,958	10,080	4,886	2,321	69,822
Accretion on asset retirement obligations	5,690	664		282		6,636
Other	(465)	227	67	2	486	317
	142,494	61,289	337,562	16,161	44,170	601,676
Earnings (loss) before interest and taxes	112,528	54,276	70,670	16,816	(44,170)	210,120
Property, plant and equipment [2]	756,202	803,706	196,789	280,801	8,419	2,045,917
Goodwill and other	194,370	28,300	115,942	22,630	17,797	379,039

(1) 12.8 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) Included in property, plant and equipment are Assets Under Construction of $119.6 million, which includes $75.6 million for Nipisi and Mitsue Pipelines.

A summary of the Corporation's interest in the Fort Saskatchewan Ethylene Storage Partnership as at December 31, 2010 is as follows:

($ thousands)	2010	2009
Current assets	**2,384**	1,794
Working capital	**2,384**	1,794
Property, plant and equipment	**82,483**	84,711
Goodwill and other intangibles	**112,191**	115,942
Future income taxes	**(44,822)**	(46,488)
Investment in partnership	**152,236**	155,959
Revenues	**22,912**	21,957
Expenses	**5,584**	4,352
Cash flow from operating activities	**17,328**	17,605
Net earnings	**11,381**	11,680

The Corporation is funding its share of the construction of new assets and has recorded a $11.5 million loan receivable as at December 31, 2010.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist primarily of conventional pipelines, linefill and gathering systems, oil sands and heavy oil pipelines, natural gas processing plants and marketing storage facilities, which are all carried at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of all projects with some major projects spanning over several years.

($ thousands)	**2010 Cost** (1)	2009 Cost	**2010 Accumulated depreciation**	2009 Accumulated depreciation	**2010 Net**	2009 Net
Conventional Pipelines	**1,405,752**	1,355,108	**(617,770)**	(598,906)	**787,982**	756,202
Oil Sands & Heavy Oil	**985,659**	909,028	**(128,065)**	(105,322)	**857,594**	803,706
Midstream & Marketing	**255,900**	238,323	**(45,540)**	(41,534)	**210,360**	196,789
Gas Services	**319,784**	285,281	**(12,182)**	(4,480)	**307,602**	280,801
Corporate	**12,317**	16,215	**(3,405)**	(7,796)	**8,912**	8,419
	2,979,412	2,803,955	**(806,962)**	(758,038)	**2,172,450**	2,045,917

(1) Included in the cost are Assets Under Construction of $278.6 million.

Depreciation and amortization expense in 2010 was $66.9 million (2009: $69.8 million).

5. GOODWILL AND OTHER

($ thousands)	Cost	Accumulated amortization	**2010 Net**	2009 Net
Goodwill	287,670		**287,670**	287,670
Intangibles	98,037	(28,914)	**69,123**	73,572
Pension asset (Note 8)	20,195		**20,195**	17,797
	405,902	(28,914)	**376,988**	379,039

6. LONG-TERM DEBT

($ thousands)	Available facilities at December 31, 2010	2010	2009
Bank loans:			
Operating facility	50,000		
Revolving credit facility	500,000	**240,000**	200,000
Non-revolving credit facility			150,000
Non-revolving term facility	75,000	**75,000**	75,000
Senior unsecured notes – Series A	175,000	**175,000**	175,000
Senior unsecured notes – Series C	200,000	**200,000**	200,000
Senior unsecured notes – Series D	267,000	**267,000**	267,000
Senior secured notes	65,959	**65,959**	73,382
	1,332,959	**1,022,959**	1,140,382
Less current portion		**(7,981)**	(157,423)
Less deferred charges		**(7,358)**	(9,437)
Balance December 31		**1,007,620**	973,522

The bank facilities are syndicated facilities established with Canadian chartered banks. Pembina's credit facilities at December 31, 2010 consisted of an unsecured $500 million revolving credit facility due July 2012 and an operating facility of $50 million due July 2011 but expected to be renewed on an annual basis. The unsecured $150 million non-revolving credit facility was repaid in 2010. Borrowings bear interest at prime lending rates plus 0 percent to 0.5 percent on the revolving credit facility and prime lending rates plus 0.75 percent to 2.75 percent on the operating facility or Bankers' Acceptances rates, plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina and range from 0.5 percent to 3.75 percent. There are no repayments due over the term of these facilities.

Series A senior unsecured notes bear interest at 5.99 percent payable semi-annually and are due June 15, 2014. Series C senior unsecured notes bear interest at 5.58 percent payable semi-annually and are due September 30, 2021. Series D senior unsecured notes bear interest at 5.91 percent payable semi-annually and are due November 18, 2019. These notes are subject to the maintenance of certain financial ratios. Pembina also has $75 million in a senior unsecured non-revolving term facility bearing interest at 6.16 percent and due May 2014.

The $66 million senior secured notes are due 2017 and bear interest at 7.38 percent per annum, compounded semi-annually and payable monthly in arrears. Blended monthly payments of principal and interest of approximately $1 million are payable on the first day of each month through August 2017. These notes are subject to the maintenance of certain financial ratios and are secured by a floating charge debenture on the assets of the Corporation and its subsidiaries, guarantees of the subsidiaries and a pledge of the subsidiaries' shares.

The Corporation has $200 million in interest rate swaps outstanding as at December 31, 2010 on variable rate bank borrowings, with an average rate of 4.4 percent and an average remaining term to expiration of 5.16 years. The Corporation receives a floating rate and pays a fixed rate. The unrealized mark to market loss on the interest rate swap was $9.9 million as at December 31, 2010.

Deferred charges of $7.4 million have been classified with long-term debt (2009: $9.4 million). Amortization related to these deferred charges of $2.4 million (2009: $3.3 million) is included in interest on long-term debt expense on the income statement.

Scheduled payments of principal on the long-term debt in the next five years are as follows:

Year	Notes
($ thousands)	
2011	7,981
2012	248,581
2013	9,226
2014	259,919
2015	10,665
	536,372

7. CONVERTIBLE DEBENTURES

	5.75%	7.35%
($ thousands)		
Balance, January 1, 2009		40,865
Conversions		(4,225)
Balance, December 31, 2009		36,640
Issued	288,635 (1)	
Conversions		(35,433)
Repayments		(1,207)
Balance, December 31, 2010	288,635	0

(1) Net of issuance cost of $11.4 million.

The 7.35 percent convertible unsecured subordinated debentures matured on December 31, 2010. The debentures were convertible at the option of the holder at a conversion price of $12.50 per common share at any time prior to maturity or redeemable by the Corporation. Conversions in 2010 were $35.4 million with $1.2 million paid on maturity.

The 5.75 percent convertible unsecured subordinated debentures were issued on November 24, 2010 and mature on November 30, 2020, with interest payable semi-annually in arrears on May 31 and November 30. The debentures may be converted at the option of the holder at a conversion price of $28.55 per common share at any time prior to maturity and may be redeemed by the Corporation. Pembina may, at its option after November 30, 2016 (or after November 30, 2014, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price of the debentures), elect to redeem the debentures by issuing common shares. The Corporation can elect to pay interest on the debentures by issuing common shares.

The Corporation did not allocate a portion of the convertible debentures to equity as the calculation of the equity components were not significant when such an allocation was based on an approximate interest rate that would have been applicable to the issuance of similar debt without the conversion features at the time the debentures were issued.

8. EMPLOYEE FUTURE BENEFITS

The Corporation maintains a defined contribution plan and non-contributory defined benefit pension plans covering its employees: a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. Benefits under the defined benefit plans are based on the length of service and the final average best three years of earnings of the employee. Benefits paid out of the plans are not indexed.

The Corporation funds these plans in accordance with government regulations by contributing to trust funds administered by an independent trustee.

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation is as at December 31, 2009.

Information about the defined benefit plan is as follows:

($ thousands)	2010	2009
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	80,950	61,359
Current service cost	4,295	2,881
Interest cost	5,512	4,703
Benefits paid	(5,356)	(3,456)
Actuarial loss	9,071	15,463
Accrued benefit obligation, end of year	94,472	80,950
Plan assets		
Fair value of plan assets, beginning of year	78,852	60,682
Actual return on plan assets	8,080	11,593
Employer contributions	8,033	10,033
Benefits paid	(5,356)	(3,456)
Fair value of plan assets, end of year	89,609	78, 852
Funded status		
Deficit	(4,863)	(2,131)
Unamortized net actuarial loss	26,484	21,640
Unamortized transitional asset	(1,426)	(1,712)
Accrued benefit asset	20,195	17,797

Plan assets consist of:

Asset category	2010 Percentage of plan assets	2009 Percentage of plan assets
Equity securities [1]	65%	66%
Debt securities	34%	33%
Cash	1%	1%
Total	100%	100%

(1) Less than 0.1 percent of the plan assets are invested in securities of the Corporation.

The net benefit plan expense is as follows:

($ thousands)	2010	2009
Current service cost	4,295	2,881
Interest cost	5,512	4,703
Actual return on plan assets gain	(8,080)	(11,593)
Actuarial loss on accrued benefit obligation	9,071	15,463
Cost arising in the period	10,798	11,454
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	2,968	7,417
Actuarial gain	(7,812)	(14,707)
Transitional asset	(286)	(286)
Net benefit plan expense	5,668	3,878

Assumptions for the expense and accrued benefit obligation are as follows:

	2010	2009
Assumptions for expense		
Discount rate	6.6%	7.5%
Expected long-term rate of return on plan assets	6.3%	6.5%
Rate of compensation increase	5.0%	6.0%
Assumptions for accrued benefit obligation		
Discount rate	5.6%	6.6%
Rate of compensation increase	4.0%	5.0%

9. ASSET RETIREMENT OBLIGATIONS

The Corporation has estimated the net present value of its total asset retirement obligations based on a total future liability (with the current change in estimate adjusted for 3 percent inflation per annum, based on the Alberta CPI inflation average) of $963 million (2009: $800 million). The new estimate includes a revision of the timing of payments. The obligations are expected to be paid over the next 50 years with substantially all being paid between 37 and 42 years. The Corporation used credit adjusted risk free rates ranging from 8.08 percent to 8.38 percent to calculate the present value of the asset retirement obligations.

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

The change in the Corporation's asset retirement obligation is as follows:

($ thousands)	2010	2009
Obligations, beginning of year	104,204	84,158
Change in obligation estimate	(9,835)	13,410
Accretion expense	7,068	6,636
Obligations, end of year	101,437	104,204

10. INCOME TAXES

The components of the Corporation's future income tax liability are as follows:

($ thousands)	2010	2009
Difference between book values and tax values of:		
Property, plant and equipment	138,675	125,692
Intangibles	9,757	9,942
Taxable limited partnership income deferral	41,413	54,058
Benefit of loss carry forwards	(82,565)	(73,852)
Asset retirement obligation	(25,359)	(26,051)
Financial instruments designated as hedges	(2,351)	(1,440)
Other	11,436	7,521
	91,006	95,870

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Corporation's earnings before taxes. This difference results from the following items:

($ thousands, except where noted)	2010	2009
Earnings before taxes	181,708	158,226
Combined statutory rate	28%	29%
Income taxes at the statutory rate	50,878	45,886
Increase (decrease) resulting from:		
Interest deductions of subsidiaries arising from intercorporate debt	(42,590)	(52,661)
Tax rate changes on future income tax balances	(7,432)	(5,434)
Interest on convertible debentures	507	877
Non-deductible items	(85)	(237)
Other	(6,270)	7,717
Income tax reduction	(4,992)	(3,852)
Future income tax reduction	(3,934)	(3,852)
Current income tax reduction	(1,058)	

11. SHAREHOLDERS' CAPITAL

Pursuant to the Arrangement, Pembina is authorized to issue an unlimited number of voting common shares and preferred shares.

Common shares	Number	Amount ($ thousands)
Balance, January 1, 2009	134,703,067	1,350,694
Issue of Trust Units (to acquire Cutbank Complex)	12,694,000	156,222
Exercise of options	578,730	6,569
Debenture conversions	353,120	4,225
Dividend Reinvestment Plan	10,259,782	142,621
Contributed surplus		464
Balance, December 31, 2009	158,588,699	1,660,795
Exercise of options	1,967,576	30,369
Debenture conversions	2,965,440	35,433
Dividend Reinvestment Plan	3,354,936	55,898
Contributed surplus		
Stock option expense (Note 12)		448
Share issue costs		(139)
Balance, December 31, 2010	**166,876,651**	**1,782,804**

No preferred shares have been issued.

12. SHARE-BASED COMPENSATION

The Corporation has an option plan under which directors, officers and employees are eligible to receive options. Although eligible to receive options, directors and officers have not been granted any since November 28, 2002. The number of common shares reserved for issuance at December 31, 2010 is 2,759,259 representing 1,680,365 options issued and exercisable, and 1,078,894 options issued and exercisable on or after their vesting date of December 31, 2010. Following the completion of the Arrangement, no further options will be granted to directors, officers and employees until a new stock option plan is adopted by the Corporation with shareholder approval.

In 2010, the directors approved new grants totaling 954,380 options, which were granted to certain employees (excluding officers) at exercise prices of $17.62, one-third of which vest immediately, one-third of which will vest on the first anniversary date of the grant and one-third of which will vest on the second anniversary date of the grant, and $19.17, one-third of which will vest on the first anniversary date of the grant, and one-third of which will vest on the second anniversary date of the grant and one-third which will vest on the third anniversary date of the grant. These options expire seven calendar years after their grant date.

The following tables summarize information about the outstanding options at December 31, 2010 and 2009:

	Number of options	Weighted average exercise price
Outstanding as at January 1, 2009	3,873,110	$14.76
Granted	687,500	$14.63
Exercised	(578,730)	$12.76
Expired	(104,463)	$15.46
Outstanding as at December 31, 2009	3,877,417	$15.02
Granted	954,380	$19.01
Exercised	(1,967,576)	$14.93
Expired	(104,962)	$16.40
Outstanding as at December 31, 2010	**2,759,259**	**$16.43**

Exercise Price (dollars)	Number outstanding at December 31, 2010	Options exercisable	Weighted average remaining life (years)
$13.85	119,676	119,676	1.32
$14.74	1,068,703	1,068,703	2.92
$15.57	40,000	40,000	3.50
$16.73	11,500	11,500	3.75
$17.08	31,500	31,500	4.01
$16.46	92,250	92,250	4.28
$18.06	109,500	109,500	4.50
$16.78	71,000	71,000	4.75
$14.84	53,499	15,002	5.01
$14.18	77,665	17,837	5.25
$14.91	107,219	55,557	5.50
$15.35	48,334	21,670	5.76
$17.62 (1)	89,833	26,170	6.01
$19.17 (1)	838,580		6.71
$13.85 to $19.17	**2,759,259**	**1,680,365**	**4.54**

(1) The most recently issued options will vest one-third on the first anniversary date of the grant (versus immediately), one-third on the second anniversary date of the grant, and one-third on the third anniversary date of the grant.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair values of the options granted during the year and the weighted average assumptions used in their determination are as follows:

	2010	2009
Annual dividend yield	**8.2%**	10.7%
Risk free interest rate	**1.85%**	2.06%
Expected life	**5 years**	5 years
Expected volatility	**17%**	44%
Forfeiture rates	**5%**	4%
Weighted average fair value per option	**$0.51**	$1.57

The Corporation expensed $0.5 million net of cancellations for the year ended December 31, 2010 which was recorded in contributed surplus (2009: $0.5 million).

A long-term incentive compensation plan was established in 2005. Under this share-based compensation plan, awards of common shares are made to qualifying employees and directors. The plan results in participants receiving cash compensation based on the value of underlying notional common shares granted under the plan. The shares vest in equal annual amounts over a three year period and the cash payments are based on a trading value of the common shares plus notional accrued dividends and performance of the Corporation. The details of the various grants are included in the following table:

($ thousands)	Restricted Share Unit ("RSU") Grant	Performance Share Unit ("PSU") Grant(1)	Outstanding at December 31, 2010	Vested at December 31, 2010
2005	55,844	26,874		
2006	145,771	71,429		
2007	234,749	206,220		
2008	227,626	164,565		155,789
2009	295,722	137,301	158,216	157,038
2010 (2)	242,832	152,375	173,558	67,380

(1) PSU grant for years 2005 to 2009 were granted at the end of the performance year based on the Corporation's performance for the year with one-third vesting immediately and one-third vesting each year thereafter.

(2) 2010 PSU award is a target amount. The actual award will be determined and vest on December 31, 2012 based on performance vesting conditions, which can result in an award of 0 to 2x the target units.

Based on the 90-day weighted average trading price of the common shares prior to December 31, 2010, the estimated intrinsic value of the restricted common shares vested to December 31, 2010 totaled $8.2 million (2009: $7.7 million). The Corporation has recorded compensation expense of $8.1 million in 2010 (2009: $7.7 million) relating to vested awards.

13. EARNINGS PER SHARE

The following table summarizes the computation of net earnings per share:

($ thousands)	2010	2009
Net earnings		
Numerator for basic earnings per share	**186,700**	162,078
Numerator for diluted earnings per share	**186,700**	164,211
Denominator:		
Weighted average denominator for basic earnings per share	**163,223**	149,001
Dilutive instruments:		
Debentures		3,338
Employee options	**579**	1,786
Denominator for diluted earnings per share	**163,802**	154,125
Basic earnings per share (in dollars)	**1.14**	1.09
Diluted earnings per share (in dollars)	**1.14**	1.07

The effect of the convertible debentures on the calculation of diluted earnings per share is anti-dilutive, and hence, has been excluded in the 2010 calculation above.

14. CHANGE IN NON-CASH WORKING CAPITAL

($ thousands)	2010	2009
Accounts receivable, inventory and other	**(29,329)**	(32,702)
Accounts payable and accrued liabilities	**41,230**	(7,917)
	11,901	(40,619)
Operations	**968**	(3,706)
Investments	**10,933**	(36,913)

15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial risk

The Corporation has exposure to credit risk, liquidity risk and market risk. The Corporation's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Corporation's policies on an ongoing basis to ensure that these risks are appropriately managed. The Corporation's Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures and reviews the adequacy of this risk framework in relation to the risks faced by the Corporation. The Corporation's Risk Management function assists in managing these risks. The Corporation's primary risk management objective is to protect capital resources, earnings and cash flow.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Corporation's cash and cash equivalents and receivables and from counterparties to its financial instruments. The carrying amount of the financial assets represents the maximum credit exposure to the Corporation.

The Corporation manages credit risk for its cash and cash equivalents by maintaining bank accounts with Schedule 1 banks. The Corporation has minimal credit risk related to its receivables as a majority of these amounts are with large established customers in the oil and gas industry and are subject to the terms of the Corporation's shipping rules and regulations or pursuant to contracts. The rules and regulations permit the Corporation to receive and hold credit assurance against a counterparty to cover current and aged receivables when warranted. Balances are payable on the 25th day of the following month. This date coincides with the date on which oil and gas companies receive payment from industry partners and customers. Historically, Pembina has collected its receivables in full with an excess of approximately 80 percent collected on the due date. Pembina also maintains lien rights on the oil and NGL that are in the Corporation's custody during the transportation of such products on the pipeline as well as the right to offset for single shipper operations. Therefore, the risk of non-collection is considered to be low and no allowance for doubtful accounts has been made.

Additionally, credit risk is mitigated through established credit management techniques, including conducting comprehensive financial and sector assessments for all new shippers on the Corporation's systems and regular reviews of the credit status of current shippers to establish and monitor the counterparty's creditworthiness, to set exposure limits and to obtain financial assurances such as letters of credit and guarantees when warranted. The Corporation's review includes external ratings for customers, where available, and, in other cases, detailed financial assessments and reviews which generate a credit rating based on financial ratios. Credit limits are established for each customer representing the maximum open amount, and an associated limit approval authority matrix has been approved by the Risk Management Committee. These limits are reviewed on an ongoing basis.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure funds and credit facilities are available to meet its short-term obligations. Management monitors daily cash positions and performs cash forecasts weekly to determine cash requirements. On a monthly basis, Management typically forecasts cash flows for a period of 12 months to identify financing requirements. These financing requirements are then addressed through a combination of credit facilities and through access to capital markets if required.

		Outstanding balances due by period				
($ thousands)	Carrying amount	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	>5 years
Accounts payable and accrued liabilities	99,228	99,228				
Dividends payable to shareholders	21,694	21,694				
Long-term debt (excluding financing fees of $7.4 million) (1)	1,022,959	3,918	4,063	257,807	282,051	475,120
Convertible debentures (excluding deferred financing fees of $11.4 million)	300,000					300,000
Derivative financial instruments	8,647	175	1,010	2,313	3,311	1,838
	1,443,881	124,840	4,063	257,807	282,051	775,120

(1) The $240 million drawn on the revolving credit facilities is due in July 2012 (1 to 2 years period). The $75 million non-revolving term facility is due in May 2014 and the $175 million in fixed rate senior unsecured notes is due in June 2014 (2 to 5 years period). The $66 million balance in fixed rate senior secured notes are due in August 2017, the $267 million in fixed rate senior unsecured notes is due November 2019, and the $200 million in fixed rate senior unsecured notes is due September 2021 (>5 years period).

Market risk

Market risk is the risk that the changes in market prices, such as interest rates, foreign exchange rates, power and commodity prices, affect the Corporation's earnings and the value of financial instruments it holds.

The Corporation uses derivative financial instruments to manage exposure to power costs, interest rates, foreign exchange and crude oil and NGL prices. The Corporation does not trade financial instruments for speculative purposes.

Contracts used to manage market risk generally consist of swap contracts. These contracts consist of interest rate swaps and power swap hedges designated as cash flow hedges. These cash flow hedges are used to manage the potential increase or decrease in the price of non-transmission power charges and interest expense on floating rate debt instruments. The Corporation has interest rate swaps of $200 million with several Schedule 1 Canadian banks and has power swap hedges for electricity purchased by Pembina.

The Corporation, from time to time, enters into commodity swap hedges and foreign exchange hedges but the swaps have an insignificant value and are recorded in current year earnings.

Liquidity and capital resources

December 31 ($ thousands)	2010	2009
Variable rate debt		
Bank debt	**246,162**	359,066
Variable rate debt swapped to fixed	**(200,000)**	(200,000)
Total variable rate debt outstanding (average rate of 4.34%)	**46,162**	159,066
Fixed rate debt		
Senior unsecured notes	**642,000**	642,000
Senior unsecured term debt	**75,000**	75,000
Senior secured notes	**65,959**	73,382
Variable rate debt swapped to fixed	**200,000**	200,000
Total fixed rate debt outstanding (average rate of 5.66%)	**982,959**	990,382
Convertible debentures	**300,000**	36,640
Total debt and debentures outstanding	**1,329,121**	1,186,088
Cash and unutilized debt facilities	**429,235**	394,861

The Corporation's credit facilities as at December 31, 2010 consisted of an unsecured $500 million revolving credit facility and an operating facility of $50 million. Borrowings bear interest at prime lending rates plus 0 percent to 0.5 percent on the revolving credit facility and prime lending rates plus 0.75 percent to 2.75 percent on the operating facility or based on Bankers' Acceptances rates plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of the Corporation and range from 0.5 percent to 3.75 percent. There are no repayments due over the term of these facilities. As at December 31, 2010, Pembina had $246.2 million drawn on bank debt (including $6.2 million in letters of credit) leaving $429.2 million of cash and unutilized debt facilities (cash as at December 31, 2010 was $125.4 million) on the $550 million of established bank facilities. At December 31, 2010, the Corporation was exposed to changes in interest rates on $46.2 million of bank borrowings. The Corporation has fixed the interest rate on $200 million of variable rate bank borrowings through interest rate swaps. The interest rate swaps had a fair value of $9.9 million unrealized loss as at December 31, 2010 and are for terms of five to ten years. Including the interest swaps, interest rates on $983 million in senior secured and unsecured notes have been fixed, leaving roughly 4 percent of Pembina's outstanding debt exposed to interest rate fluctuations.

The Corporation is also exposed to changes in the cost of power. At December 31, 2010, the Corporation has fixed the price of non-transmission power charges by way of price swap contracts for 2010 through 2015. The fair value of these contracts at December 31, 2010 was an unrealized gain of $0.4 million. The power swap hedges the first 15 MW of power consumption each day at an average price of $45.65 per MWh for 2011, 5 MW at an average price of $47.75 per MWh for 2012 and an additional 5 MW at an average price of $54.50 MWh from 2011 to 2015. Assuming a portion of the power was not hedged, every $5 KW/h change in the Alberta pool price will increase operating expenses by approximately $0.7 million.

Fair values

Pembina classifies its financial instruments as follows: cash and short-term investments are designated as "held for trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and other are designated as "loans and receivables" and are measured at amortized cost. The derivative financial instruments are measured at fair value using market rates (interest rate and foreign exchange derivatives) or using quoted market prices (power and commodity derivatives) where available. In the absence of quoted market prices, third-party broker quotes or other valuation techniques may be used. Credit risk has been taken into consideration when calculating the fair value of derivatives. Accounts payable and accrued liabilities, dividends payable, long-term debt and convertible debentures are designated as "other liabilities" and recorded at amortized cost. The fair values for the long-term debt are determined by discounting the future contractual cash flows under the note agreements at discount rates that represent borrowing rates available for loans with similar terms and conditions. The fair value of debentures is determined based on available market information. There are no material differences in the carrying amounts of the financial instruments reported on the balance sheet compared to the estimated fair values except as follows:

	December 31, 2010		**December 31, 2009**	
($ thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt				
Senior secured notes	**65,959**	**74,276**	73,382	86,169
Senior unsecured notes	**717,000**	**804,498**	717,000	742,946
Convertible debenture	**288,635**	**303,750**	36,640	53,585

The fair value of our derivatives is classified according to the following hierarchy based on the amount of observable inputs used to value the instruments.

Level 1: Unadjusted quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices. Pembina obtains quoted market prices for commodities, foreign exchange, future power contracts and interest rates. Information sources include banks, Natural Gas Exchange ("NGX"), ICAP Capital Markets Inc. ("ICAP"), Tullett Prebon Information Inc. ("Prebon"), independent price publications and over-the-counter broker quotes.

Level 3: Valuations in this level require the most significant judgments and consist primarily of unobservable or non-market based inputs. Level 3 inputs include longer term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value, which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods. Pembina does not use Level 3 inputs for any of its fair value measurements.

The following table includes our derivatives carried at fair value for our trading and non-trading activities as at December 31, 2010 and 2009. Financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the least observable input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels.

Net Derivatives at December 31, 2010	Level 1	Level 2	Level 3	Total
Interest rate swap		(9,922)		**(9,922)**
Power derivative		440		**440**
Commodity derivative		835		**835**
Total derivatives		(8,647)		**(8,647)**

Net Derivatives at December 31, 2009	Level 1	Level 2	Level 3	Total
Interest rate swap		(6,117)		**(6,117)**
Foreign Exchange derivative		(242)		**(242)**
Power derivative		336		**336**
Commodity derivative		542		**542**
Total derivatives		(5,481)		**(5,481)**

16. CAPITAL STRUCTURE

The Corporation's capital structure consists of Shareholders' Equity plus long-term liabilities, defined as current and long-term portions of long-term debt. Long-term debt is comprised of bank credit facilities, senior secured and unsecured notes and convertible debentures. The balances of each of these items are as follows:

December 31 ($ thousands)	December 31, 2010	December 31, 2009
Current portion of long-term debt	**7,981**	157,423
Long-term debt	**1,007,620**	973,522
Convertible debentures	**288,635**	36,640
Shareholders' Equity	**1,180,160**	1,129,372

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

The Corporation maintains a conservative capital structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. The Corporation funds its operating commitments, short-term capital spending as well as its dividends to shareholders through this cash flow, while new borrowing and equity issuances are reserved for the support of specific significant development activities.

Pembina is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants as of December 31, 2010. The Corporation's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

17. COMMITMENTS

The Corporation is committed to annual payments as follows:

($ thousands)		Payments due by period			
Contractual Obligations	**Total**	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Office and vehicle leases	**72,275**	6,101	14,267	7,976	43,931
Long-term debt [1]	**1,022,959**	7,981	517,727	22,132	475,119
Convertible debentures [1]	**300,000**				300,000
Construction commitments	**345,760**	330,260	15,500		
Asset retirement obligation	**101,437**				101,437
Total contractual obligations	**1,842,431**	344,342	547,494	30,108	920,487

(1) Excluding deferred financing fees.

The Corporation has entered into pipeline agreements that will require future capital expenditures. The remaining cost of construction of additional pipelines and facilities to provide the contracted transportation capacity is estimated to cost $345.8 million.

18. SUBSEQUENT EVENT

On January 12, 2011 Pembina through its wholly-owned subsidiary, Pembina Midstream Limited Partnership, acquired terminalling and storage facilities in the Edmonton, Alberta area (the "Acquired Assets") for an aggregate purchase price of approximately $57 million.

The acquisition of the Acquired Assets was funded by Pembina's existing credit facilities and closed on January 7, 2011.

SUPPLEMENTAL INFORMATION

(unaudited)

CONSOLIDATED BALANCE SHEETS

Years ended December 31 ($ thousands)	2010	2009	2008	2007	2006
Assets					
Current assets:					
Cash and short-term investments	**125,397**	53,927	13,638	16,736	1,861
Accounts receivable and other	**105,474**	83,244	57,614	56,177	44,947
Inventory	**26,099**	18,998	7,526		
	256,970	156,169	78,778	72,913	46,808
Property, plant and equipment	**2,172,450**	2,045,917	1,685,394	1,524,887	1,257,729
Goodwill and other	**376,988**	379,039	354,037	358,212	371,667
Derivative financial instruments				10,796	
	2,806,408	2,581,125	2,118,209	1,966,808	1,676,204
Liabilities and Shareholders' Equity					
Current liabilities:					
Bank indebtedness					
Accounts payable and accrued liabilities	**99,228**	57,997	65,913	59,485	37,411
Dividends payable	**21,694**	20,616	17,511	15,905	12,622
Current portion of long-term debt	**7,981**	157,423	81,904	6,422	5,973
Convertible debentures		36,640			15,133
	128,903	272,676	165,328	81,812	71,139
Long-term debt	**1,007,620**	973,522	831,797	772,364	547,396
Convertible debentures	**288,635**		40,865	47,702	61,679
Derivative financial instruments	**8,647**	5,481	13,962		
Asset retirement obligations	**101,437**	104,204	84,158	62,236	29,889
Future income taxes	**91,006**	95,870	98,869	93,957	113,617
	1,626,248	1,451,753	1,234,979	1,058,071	823,720
Shareholders' equity					
Shareholders' capital	**1,782,804**	1,660,795	1,350,694	1,320,692	1,235,809
Deficit	**(595,533)**	(527,082)	(456,856)	(419,890)	(383,325)
Accumulated other comprehensive income (loss) – cash flow hedges	**(7,111)**	(4,341)	(10,608)	7,935	
	1,180,160	1,129,372	883,230	908,737	852,484
	2,806,408	2,581,125	2,118,209	1,966,808	1,676,204

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

Years ended December 31 ($ thousands except per share amounts)	2010	2009	2008	2007	2006
Revenues:					
Conventional Pipelines	**261,617**	255,022	263,409	249,056	222,957
Oil Sands & Heavy Oil	**118,420**	115,565	85,425	61,714	62,120
Midstream & Marketing	**813,567**	408,232	326,049	194,018	55,801
Gas Services	**61,498**	32,977			
	1,255,102	811,796	674,883	504,788	340,878
Expenses:					
Operations	**160,147**	159,162	150,921	129,628	120,605
Product purchases	**735,223**	314,372	220,934	115,053	5,060
General and administrative	**44,086**	51,367	38,632	30,643	24,013
Management fee					1,027
Depreciation and amortization	**66,891**	69,822	72,148	66,450	85,619
Accretion on asset retirement obligations	**7,068**	6,636	5,022	2,665	1,395
Internalization of management contract			13,800	4,700	6,000
Gain on sale of linefill and other	**(189)**	317	(42,310)	1,639	
	1,013,226	601,676	459,147	350,778	243,719
Earnings before interest and taxes	**241,876**	210,120	215,736	154,010	97,159
Interest on long-term debt	**56,052**	48,869	39,430	29,456	24,880
Interest on convertible debentures	**4,116**	3,025	3,386	4,769	7,700
Earnings before taxes	**181,708**	158,226	172,920	119,785	64,579
Future income tax expense (reduction)	**(3,934)**	(3,852)	11,127	(22,520)	(24,306)
Current income tax reduction	**(1,058)**				
Net earnings	**186,700**	162,078	161,793	142,305	88,885
Deficit, beginning of year	**(527,082)**	(456,856)	(419,890)	(383,325)	(329,925)
Dividends	**(255,151)**	(232,304)	(198,759)	(178,870)	(142,285)
Deficit, end of year	**(595,533)**	(527,082)	(456,856)	(419,890)	(383,325)
Net earnings per share – basic (dollars)	**1.14**	1.09	1.21	1.09	0.73
Net earnings per share – diluted (dollars)	**1.14**	1.07	1.19	1.06	0.73

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	2010	2009	2008	2007	2006
Cash provided by (used in):					
Operating activities:					
Net earnings	**186,700**	162,078	161,793	142,305	88,885
Items not involving cash:					
Depreciation and amortization	**66,891**	69,822	72,148	66,450	85,619
Accretion on asset retirement obligations	**7,068**	6,636	5,022	2,665	1,395
Future income tax expense (reduction)	**(3,934)**	(3,852)	11,127	(22,520)	(24,306)
Current income tax reduction	**(1,058)**				
Gain on sale of linefill			(42,896)		
Employee future benefits expense	**5,668**	3,878	4,288	4,777	4,620
Share-based compensation expense	**449**	464	766	1,232	1,135
Other	**402**	(672)		1,099	363
Employee future benefits contributions	**(8,033)**	(10,033)	(3,759)	(3,759)	(9,000)
Changes in non-cash working capital	**968**	(3,706)	11,416	(2,709)	(4,851)
Cash flow from operating activities	**255,121**	224,615	219,905	189,540	143,860
Financing activities:					
Bank borrowings	**42,079**	157,149	141,337	239,113	59,862
Repayment of Senior Secured Notes	**(7,423)**	(6,904)	(6,422)	(5,973)	(5,555)
Issue of senior debt		342,000			194,842
Debt repayment	**(150,000)**	(275,000)			(165,000)
Issue of debentures	**300,000**				
Debenture repayment	**(1,207)**				
Debenture issuance costs	**(11,365)**				
Share issue costs	**(139)**				
Issue of common shares for cash		156,222			
Issue of common shares on exercise of options	**30,369**	6,569	7,536	7,372	3,271
Issue of common shares under Dividends Reinvestment Plan	**55,898**	142,621	14,863	47,170	76,639
Dividends:					
– current year	**(233,457)**	(211,686)	(181,248)	(162,965)	(129,664)
– prior year	**(20,617)**	(17,511)	(15,905)	(12,622)	(9,966)
Cash flow from financing activities	**4,138**	293,460	(39,839)	112,095	24,429
Investing activities:					
Capital expenditures	**(198,722)**	(143,830)	(223,976)	(300,312)	(168,955)
Acquisition of Cutbank Complex assets		(297,043)			
Proceeds on sale of linefill			54,764		
Changes in non-cash working capital	**10,933**	(36,913)	(13,952)	13,552	9,838
Cash flow from investing activities	**(187,789)**	(477,786)	(183,164)	(286,760)	(159,117)
Change in cash	**71,470**	40,289	(3,098)	14,875	9,172
Cash (bank indebtedness), beginning of year	**53,927**	13,638	16,736	1,861	(7,311)
Cash, end of year	**125,397**	53,927	13,638	16,736	1,861

FIVE YEAR OPERATING STATISTICS

Years ended December 31	2010	2009	2008	2007	2006
Average annual throughput (in thousands of bpd)					
Alberta					
Conventional crude oil	**196.9**	213.5	246.8	242.7	235.1
Condensate	**49.9**	44.4	48.3	49.4	50.3
Natural gas liquids	**108.5**	116.1	121.5	130.6	140.4
Total Alberta pipeline systems	**355.3**	374.0	416.6	422.7	425.8
British Columbia (BC)					
Conventional crude oil	**18.7**	19.3	22.6	24.4	22.7
Oil Sands & Heavy Oil [(1)]					
Synthetic crude oil	**775.0**	775.0	775.0	525.0	389.0
Average gas processing (mmcf/d)	**220.5**	197.4			
Total Pembina					
Conventional crude oil	**215.6**	232.8	269.4	267.1	257.8
Synthetic crude oil [(1)]	**775.0**	775.0	775.0	525.0	389.0
Condensate	**49.9**	44.4	48.3	49.4	50.3
Natural gas liquids	**108.5**	116.1	121.5	130.6	140.4
Total average throughput	**1,149.0**	1,168.3	1,214.2	972.1	837.5
Throughput composition (% of total)					
Condensate and conventional crude oil	**23.1%**	23.8%	26.2%	32.6%	36.8%
Synthetic crude oil [(1)]	**67.4%**	66.3%	63.8%	54.0%	46.4%
Natural gas liquids	**9.5%**	9.9%	10.0%	13.4%	16.8%
Pipeline revenue ($ millions)					
Alberta	**231.8**	222.4	224.3	216.4	195.2
BC	**29.8**	32.6	39.1	32.7	27.8
Oil Sands & Heavy Oil	**118.4**	115.6	85.4	61.7	62.1
Pipeline revenue	**380.0**	370.6	348.8	310.8	285.1
Midstream & Marketing revenue	**78.4**	93.8	105.1	79.0	50.7
Gas Services revenue	**61.5**	33.0			
Total revenue	**519.9**	497.4	453.9	389.8	335.8
Average conventional pipelines revenue (dollars per barrel) (excluding Oil Sands & Heavy Oil and Midstream & Marketing results)	**1.79**	1.65	1.55	1.43	1.27

(1) Oil Sands & Heavy Oil transported volumes are reported as contracted capacity as revenue is independent of throughput.

QUARTERLY FINANCIAL STATISTICS

($ thousands)	2010 1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/10	Year ended Dec. 31/09
Revenue	**294,656**	391,782	272,137	296,528	**1,255,102**	811,796
Product purchases	**163,144**	261,904	148,437	161,738	**735,223**	314,372
Operating expense	**38,280**	39,074	38,652	44,142	**160,147**	159,162
General and administrative	**9,395**	12,249	11,569	10,873	**44,086**	51,367
Depreciation and amortization	**17,255**	16,924	16,232	16,479	**66,891**	69,822
Accretion on asset retirement obligations	**1,750**	1,750	1,784	1,784	**7,068**	6,636
Gain on sale of linefill and other	**643**	(588)	(188)	(56)	**(189)**	317
Earnings before interest and taxes	**64,189**	60,469	55,651	61,567	**241,876**	210,120
Interest on long-term debt	**14,470**	14,277	14,060	13,245	**56,052**	48,869
Interest on convertible debentures	**655**	608	548	2,305	**4,116**	3,025
Future income tax expense (reduction)	**(2,009)**	4,408	(1,900)	(4,433)	**(3,934)**	(3,852)
Current income tax reduction				(1,058)	**(1,058)**	
Net Earnings	**51,073**	41,176	42,943	51,508	**186,700**	162,078

QUARTERLY SEGMENTED INFORMATION

($ millions)	2010 1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/10	Year ended Dec. 31/09
Operating Revenue						
Conventional Pipelines	64.7	64.0	64.4	68.5	**261.6**	255.0
Oil Sands & Heavy Oil	28.8	29.5	29.3	30.8	**118.4**	115.6
Midstream & Marketing	23.5	20.6	14.5	19.8	**78.4**	93.8
Gas Services	14.5	15.8	15.5	15.7	**61.5**	33.0
Total	131.5	129.9	123.7	134.8	**519.9**	497.4
Operating Expense						
Conventional Pipelines	22.2	21.5	22.3	25.9	**91.9**	104.6
Oil Sands & Heavy Oil	9.4	10.4	9.5	10.9	**40.2**	34.0
Midstream & Marketing	2.6	2.4	2.3	3.0	**10.3**	10.6
Gas Services	4.1	4.8	4.6	4.2	**17.7**	10.0
Total	38.3	39.1	38.7	44.0	**160.1**	159.2
Net Operating Income (1)						
Conventional Pipelines	42.5	42.5	42.1	42.6	**169.7**	150.4
Oil Sands & Heavy Oil	19.4	19.1	19.8	19.9	**78.2**	81.6
Midstream & Marketing	20.9	18.2	12.2	16.8	**68.1**	83.2
Gas Services	10.4	11.0	10.9	11.5	**43.8**	23.0
Total	93.2	90.8	85.0	90.8	**359.8**	338.2

(1) Net operating income is a non-GAAP measure.

QUARTERLY OPERATING STATISTICS

	2010 1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/10	Year ended Dec. 31/09
Average Throughput (thousands of bpd)						
Alberta (1)	370.2	352.3	343.2	355.6	**355.3**	374.0
BC (1)	19.1	18.1	18.2	19.4	**18.7**	19.3
Oil Sands & Heavy Oil (2)	775.0	775.0	775.0	775.0	**775.0**	775.0
Total average throughput	1,164.3	1,145.4	1,136.4	1,150.0	**1,149.0**	1,168.3
Average gas processing (mmcf/d net to Pembina)	216.9	221.6	215.8	227.8	**220.5**	197.4
Conventional Pipelines Revenue ($ per barrel)						
Alberta	1.70	1.76	1.79	1.80	**1.76**	1.60
BC	1.90	1.75	1.98	2.28	**1.98**	2.06
Average	1.72	1.76	1.81	1.85	**1.79**	1.65
Operating Expense ($ per barrel)						
Alberta	0.57	0.56	0.59	0.63	**0.59**	0.65
BC	0.86	0.95	0.97	1.36	**1.04**	0.98
Average	0.60	0.60	0.63	0.71	**0.64**	0.68

(1) Certain prior period volumes have been adjusted as months have been settled.
(2) Results for Oil Sands & Heavy Oil pipelines show contracted capacity rather than actual throughput.

COMMON SHARE TRADING ACTIVITY (1)

	2010					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/10	Year ended Dec. 31/09
Common share trading price ($ per share)						
– high	18.47	18.49	20.58	22.39	**22.39**	17.85
– low	16.60	16.49	17.68	20.53	**16.49**	11.68
– close	17.41	17.86	20.55	21.60	**21.60**	17.52
Volume traded (number of shares)	22,074,560	21,379,149	17,266,026	30,712,034	**91,431,769**	80,236,717
Value traded (dollars)	387,004,943	378,494,478	331,032,358	658,473,421	**1,755,005,200**	1,185,974,096
Common shares outstanding (end of period)	162,212,619	163,569,557	164,472,577	166,876,651	**166,876,651**	158,588,699
Common shares outstanding (weighted average)	161,808,700	163,224,761	163,996,586	165,041,362	**163,222,528**	149,001,343

(1) On October 1, 2010, all outstanding trust units of Pembina Pipeline Income Fund (the "Fund") were converted to common shares of Pembina Pipeline Corporation pursuant to the conversion of the Fund to a corporate structure. Pembina Pipeline Corporation's common shares trade on the Toronto Stock Exchange under the symbol PPL.

MANAGEMENT

EXECUTIVE TEAM

Pembina's managers lead by example, setting high standards for corporate performance and working in a respectful and supportive manner to deliver on our commitments. Together, they strive to provide safe, environmentally responsible and cost-effective services to customers while generating maximum value for investors. Each member of the executive team is an officer of Pembina.

Robert (Bob) Michaleski
President & Chief Executive Officer
Bob is responsible for developing and steering Pembina's time-tested business strategy, which includes generating value by providing customers with cost-effective, reliable services; diversifying and integrating our asset base; implementing growth in a safe and environmentally responsible manner; and maintaining a strong balance sheet through prudent financial management.

Michael (Mick) Dilger
Chief Operating Officer
Mick leads the growth and development of Pembina's businesses, which includes ensuring safe, reliable and environmentally responsible operations, and identifying and supervising the development of new business opportunities.

Peter Robertson
Vice President, Finance & Chief Financial Officer
Peter handles the financial affairs of Pembina including treasury, tax and risk management. He also oversees Pembina's business and supervisory control and data acquisition information systems procurement, and drafting functions.

James (Jim) Watkinson
Vice President, General Counsel & Secretary
Jim's responsibilities include managing all legal transactions and insurance coverage, negotiating acquisitions and land access agreements as well as overseeing Aboriginal Relations, regulatory approvals and the company's health, safety and environment efforts.

Glenys Hermanutz
Vice President, Corporate Affairs
Glenys has executive responsibility for corporate development, investor relations, communications and public relations. She is the steward of the Pembina brand.

Robert (Bob) Jones
Vice President, Midstream & Marketing
Bob is responsible for developing and expanding our network of terminals, storage facilities and hub services, which allow Pembina's service offerings to be integrated along the hydrocarbon value chain.

Stuart (Stu) Taylor
Vice President, Gas Services
Stu oversees and will lead the expansion of Pembina's newest business unit, which was created in 2009 when Pembina acquired natural gas gathering and processing assets. This business helps diversify our asset base and enhances customer service.

Paul J. Murphy
Vice President, Conventional Pipelines
Paul is responsible for overseeing the safe, reliable and environmentally responsible operations of our network of conventional crude oil and natural gas liquids pipelines and related facilities, as well as seeking and developing service enhancement opportunities across our systems.

BOARD OF DIRECTORS

The Board of Directors provides strategic guidance to Pembina's executive team, sets corporate policy and ensures Pembina meets or exceeds all regulatory requirements while maintaining high standards for corporate governance and ethical business practices. The Board is comprised of nine members. Eight of the nine directors, including the Chairman of the Board, are independent within the meaning provided by Canadian securities laws. The President and Chief Executive Officer is the only director who is not independent. Directors are elected by shareholders at Pembina's annual general meeting.

Number of shares held by each director is as of December 31, 2010.

Lorne B. Gordon, Chairman of the Board
Director since October 1997

Governance Committee

Lorne Gordon is an independent businessman who has served as the Vice-Chairman of Coril Holdings Ltd. (a private investment and holding company) from 2004 to 2006 and President and Chief Executive Officer of Coril Holdings Ltd. from 1997 to 2004. Mr. Gordon was President and Chief Executive Officer of Pembina from 1985 to 1993. Mr. Gordon received his Chartered Accountant designation in 1971. He is the past Chairman of the Canadian Petroleum Association and a founding member of the Board of Governors of the Canadian Association of Petroleum Producers.

Mr. Gordon is 66 years old and holds 337,949 shares.

Thomas W. Buchanan
Director since August 2010

Audit Committee, Governance Committee, Human Resources & Compensation Committee

Thomas Buchanan is the former President and Chief Executive Officer of Provident Energy Trust, holding the position of Chief Executive Officer from March 2001 until April 2010, and adding the position of President from June 2006 until April 2010. Prior to joining Provident, Mr. Buchanan was the President and Chief Executive Officer of Founders Energy Ltd. Additionally, Mr. Buchanan was the Chief Financial Officer of Bankeno Resources from 1988 to 1991, and prior to that, held various financial management positions with Canadian-based firms. He graduated from the University of Calgary with a Bachelor of Commerce in 1980, completed his Chartered Accountant designation in 1981 and, in 2010, was appointed a Fellow of the Canadian Institute of Chartered Accountants. Mr. Buchanan's volunteerism includes Chair of Renfrew Educational Services, a not-for-profit educational organization for children with special needs. He is also a member of the board of the Edge School for Athletes and a member of the Management Advisory Council for the Haskayne School of Business at the University of Calgary. He is a Director on the boards of Athabasca Oil Sands Corp., Emera Inc., Hawk Exploration Ltd. and Pace Oil and Gas Ltd.

Mr. Buchanan is 55 years old and holds 0 shares.

Allan L. Edgeworth
Director since July 2006

Chair, Health, Safety & Environment Committee, Audit Committee, Governance Committee

Allan Edgeworth is President of ALE Energy Inc. (a private consulting company), a position he has held since 2005. He has held a number of positions at the senior executive level, with the most recent being President and Chief Executive Officer of Alliance Pipeline Ltd. from 2001 to 2004. Mr. Edgeworth holds a Bachelor of Applied Science in Geological Engineering from the University of British Columbia and is a graduate of Queen's University Executive Program. He is a Director of AltaGas Ltd., and Emera Incorporated and is a Commission Member and Director of the Alberta Securities Commission. Mr. Edgeworth has served on various related industry association boards, including the Interstate Natural Gas Association of America and the Canadian Gas Association and is a past Chair of the Canadian Energy Pipeline Association.

Mr. Edgeworth is 60 years old and holds 36,067 shares.

Randall J. Findlay
Director since March 2007

Chair, Human Resources & Compensation Committee, Governance Committee

Randall Findlay is a corporate director who retired as President of Provident Energy Trust in 2006, a position he held since March 2001. He was Chief Operating Officer of Founders Energy Ltd. from December 1999 to March 2001 and Senior Vice President of TransCanada PipeLines Ltd. and President and Chief Executive Officer of TransCanada Gas Processing L.P. from 1998 to 1999. Mr. Findlay holds a Bachelor of Applied Science from the University of British Columbia. He is a Director of Provident Energy Ltd., Superior Plus Inc., and is Chair of the Board of Canadian Helicopters Group Inc. Mr. Findlay is also a Director of EllisDon Construction Inc. and Sea NG Management Ltd., both of which are private companies. Mr. Findlay is a board member of the Alberta Children's Hospital Foundation.

Mr. Findlay is 61 years old and holds 70,000 shares.

Myron F. Kanik
Director since October 1997

Chair, Governance Committee, Health, Safety & Environment Committee, Human Resources & Compensation Committee

Myron Kanik has been an independent businessman since his retirement as the President of the Canadian Energy Pipeline Association, a position he held from September 1993 to 1999. Prior to that, Mr. Kanik was with the Alberta Department of Energy from 1974 to 1993 where he served in various capacities, including Deputy Minister. Mr. Kanik is a graduate in economics and mathematics from the University of Saskatchewan. Mr. Kanik is a Director of AltaGas Ltd. and serves on the Calgary Region Health Board. Mr. Kanik is actively engaged in the governance of several not-for-profit organizations.

Mr. Kanik is 70 years old and holds 20,837 shares.

David M.B. LeGresley
Director since August 2010

Governance Committee, Health, Safety & Environment Committee, Human Resources & Compensation Committee

David LeGresley is a former executive of National Bank Financial and spent 12 years with that company, most recently serving as Vice Chairman from 2006 to 2008. Prior to that assignment, he was National Bank Financial's Executive Vice President and Head of Corporate and Investment Banking (1999 to 2006); Managing Director and Head of Vancouver Investment Banking (1998 to 1999); and Managing Director, Investment Banking (1996 to 1998). During his years at National Bank Financial he integrated the corporate finance operations of First Marathon Securities with those of Levesque Beaubien Securities. Mr. LeGresley's other career experiences include positions at Salomon Brothers Canada from 1990 to 1996 and CIBC Wood Gundy from 1986 to 1990. Currently, Mr. LeGresley serves as a Director of NB Split Corp., a TSX-listed structured products company, and he is on the advisory committee for CANFAR (the Canadian Foundation for AIDS Research). He received a Bachelor of Applied Science Degree in Engineering from the University of Toronto in 1981 and a Master of Business Administration from Harvard Business School in 1986. He is a member of the Institute of Corporate Directors.

Mr. LeGresley is 52 years old and holds 5,000 shares.

Robert B. Michaleski, President & Chief Executive Officer
Pembina Pipeline Corporation

Mr. Michaleski joined Pembina in 1980. Prior to his current appointment, Mr. Michaleski was Vice President Finance and Chief Financial Officer. He also previously served as Pembina's Controller. He received his Bachelor of Commerce (Honours) degree from the University of Manitoba in 1975 and his Chartered Accountant designation in 1978. Mr. Michaleski serves on the board of Coril Holdings Ltd., a privately held company.

Mr. Michaleski is 58 years old and holds 357,128 shares.

Leslie A. O'Donoghue
Director since December 2008

Audit Committee, Health, Safety & Environment Committee

Ms. O'Donoghue is the Chief Legal Officer and Senior Vice President, Business Development at Agrium Inc., where she has worked since 1999. Her expertise includes corporate governance, legal affairs, internal audit, health, safety and environment, as well as mergers and acquisitions. Prior to joining Agrium, Ms. O'Donoghue was a Partner with Blake, Cassels & Graydon LLP. She received her Economics Degree from the University of Calgary in 1984, and completed her Law Degree from Queen's University in 1988. She was admitted to the Alberta Bar in 1989.

Ms. O'Donoghue is 48 years old and holds 17,600 shares.

Robert F. Taylor
Director since October 1997

Chair, Audit Committee, Governance Committee

Robert Taylor has been an independent businessman since June 1997. Mr. Taylor was a Director of Shell Canada Limited and President of Shell Canada Products Limited prior to his retirement in 1996. From 1991 to 1993, he was Executive Vice President of Shell Canada Resources, which followed his return from three years with the Shell International Petroleum Company in London, England. Mr. Taylor became a member of the Institute of Chartered Accountants of Alberta in 1965. He is a Director of McTAY Holdings Limited, a private company. He is actively involved in the governance of The Duke of Edinburgh Commonwealth Study Conferences. In 1999, Mr. Taylor was recognized by Her Majesty Queen Elizabeth II with the award of a Lieutenant of the Royal Victorian Order (LVO).

Mr. Taylor is 70 years old and holds 16,650 shares.

CORPORATE GOVERNANCE

Our governance program ensures that a comprehensive system of stewardship and accountability is in place and functioning among our Board of Directors, management, employees and contractors. We're committed to the principles of good governance, and Pembina employs a variety of policies, programs and practices to manage corporate governance and ensure compliance. This includes:

- An independent Chairman of the Board.
- Independent directors. Eight of the nine Board members are independent.
- Directors are elected on an individual basis and stand for reappointment to the Board each year at Pembina's annual general meeting.
- Every Board member and Pembina employee is required to annually certify compliance with the company's Code of Ethics and corporate policies.
- The Governance Committee has a process to nominate directors and assess directors on an ongoing basis.
- Committees of the Board and individual directors can engage outside advisors at the company's expense.
- The Human Resource & Compensation Committee has a formal succession planning process in place for the CEO and other members of Pembina's executive team.
- Ensuring director education occurs regularly. Each new director receives a company orientation, which includes a strategic review and risk analysis. At least once per year, the Board participates in a strategy session that includes reviewing the company's operational activities and future growth opportunities, and seeking the opinions of third-party advisors as it relates to internal and external forces that could positively or negatively impact the company.

CODE OF ETHICS

Pembina's Code of Ethics, which is available at **www.pembina.com** and the company's profile on **www.sedar.com**, outlines Pembina's vision, strategy and commitment to fair and ethical practices. The Code of Ethics establishes a high standard for governing the activities of Pembina's employees, executive and Board of Directors, including expectations for ensuring a safe, healthy and respectful workplace, maintaining personal privacy and the protection of confidential information. These corporate governance practices are not limited to internally focused activities. Pembina places a great deal of importance on community involvement, consultation and maintaining good relationships with stakeholders.

For further information about each Board member and the mandates of each committee, please see the Pembina Pipeline Corporation management information circular filed with regulators and available at **www.pembina.com**.

CORPORATE INFORMATION

HEAD OFFICE

Pembina Pipeline Corporation
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Calgary, Alberta T2P 3V4

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

TRUSTEE AND REGISTRAR AND TRANSFER AGENT

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

STOCK EXCHANGE

Pembina Pipeline Corporation
Common shares are listed on the Toronto Stock Exchange under the symbol PPL
5.75% Convertible Debentures symbol PPL.DB.C

INVESTOR INQUIRIES CONTACT

Phone	(403) 231-7500
Fax	(403) 237-0254
Toll Free	1-888-428-3222
Email	investor-relations@pembina.com
Website	www.pembina.com

ANNUAL GENERAL MEETING

Shareholders are invited to attend Pembina's annual general meeting on May 26, 2011 at 2 pm. The meeting will be held in the Grand Lecture Theatre, The Metropolitan Centre, 333 – 4th Avenue SW, Calgary, Alberta.

PREMIUM DIVIDEND™ AND DIVIDEND REINVESTMENT PLAN*

Pembina offers a Premium Dividend™ and Dividend Reinvestment Plan (DRIP) to eligible shareholders of Pembina Pipeline Corporation. The DRIP allows participants an opportunity to:

- reinvest dividends into common shares at a five percent discount to a weighted average market price, under the dividend reinvestment component of the plan; or,
- realize two percent more cash on their dividends, under the premium dividend component of the plan.

A brochure, detailing administration of the DRIP and eligibility and enrolment information, is available online at **www.pembina.com**, or call **1-888-428-3222** to receive a copy by mail. Shareholders wishing to enroll in the DRIP are asked to contact their broker, financial advisor or financial institution.

* As of the published date of this annual report, Pembina's DRIP is suspended.

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