

# Illustrative Example: Tax Consequences of the Veresen Acquisition

*This information is of a general nature only and is not intended to be, nor should it be construed to be legal, business or tax advice to any particular shareholder. No representations are made with respect to the income tax consequences to any particular shareholder. Pembina recommends shareholders consult with tax advisors regarding the income tax considerations applicable to them in their particular circumstances, including the application and the effect of the income and other tax laws of any country, province, state or local tax authority.*

*The example to follow is intended for illustrative purposes only and is dependent on various assumptions and facts. Rounding to the nearest whole share has been adhered to in accordance with the management information circular of Veresen dated June 5, 2017 available in Canada at [www.sedar.com](http://www.sedar.com) and in the United States at [www.sec.gov](http://www.sec.gov). Additional information regarding the transaction is described in our public filings available in Canada at [www.sedar.com](http://www.sedar.com) and in the United States at [www.sec.gov](http://www.sec.gov).*

The purpose of this Illustrative Example is to describe the general tax consequences of the acquisition of Veresen Inc. by Pembina Pipeline on October 2, 2017. Under the Plan of Arrangement, each shareholder elected to receive either: (i) 0.2809 of a common share of Pembina plus \$6.4314 CAD in cash or just cash or (ii) 0.4287 of a common share of Pembina in exchange for a common share of Veresen. Shareholders who elected just cash under the first option received 0.2809 of a common share of Pembina plus \$6.4314 CAD in cash. Shareholders who failed to make an election received 0.4287 of a common share of Pembina. The price of a Pembina common share used for the exchange was \$43.50.

The examples below show the general tax consequences of either option, with relevant calculations, of taxable and tax deferred gain or loss scenarios. Subject to various facts and assumptions the tax consequences of the acquisition will generally be as follows for past Veresen (Canadian and U.S. resident) shareholders. Each shareholder's particular circumstances or actions may result in different income tax considerations.

## Canadian Resident Veresen Shareholder

Assumptions:

- The Canadian resident Veresen shareholder held 100 shares of Veresen.
- Total average cost of \$10 or \$20 per Veresen share to illustrate a potential gain or loss scenario.

The average cost of the Veresen shares exchanged is the average cost of all Veresen shares held in all accounts by the shareholder. Average cost is shareholder specific therefore please contact your advisor for your particular circumstances.



**Option 1: Shareholders who elected cash and shares or who elected cash.**

*Shareholders received cash and shares (0.2809 of a common share of Pembina plus \$6.4314 CAD in cash).*

A shareholder with 100 shares would have received total consideration of cash and shares equal to \$1,865.

	Consideration	x Number of shares	= Total Proceeds
Cash	\$6.4314	x 100 shares	= \$643
Pembina Share (\$43.50 x 0.2809)	<u>\$12.21915</u>	x 100 shares	<u>= \$1,222</u>
Total	\$18.65		\$1,865

This transaction is treated such that part of the total Veresen shares are sold for cash and part of the total Veresen shares are exchanged. The cash component is 34% of the consideration received and the share exchange component is 66% of the consideration received. For the purposes of calculating potential tax consequences the shareholder received cash for 34 Veresen shares (100 shares x 34%) and received Pembina shares for 66 Veresen shares (100 shares x 66%).

The average cost of Veresen shares held is \$10 to illustrate a potential taxable and tax deferred gain and \$20 to illustrate a potential taxable and tax deferred loss.

Gain example Veresen share cost = \$10				Loss example Veresen share cost = \$20		
1. Calculate cost of shares for both the cash and share exchange components.						
<b>Number of shares x Veresen share cost = Total Cost</b>						
Cash component	34 shares	X \$10	= \$340	34 shares	X \$20	= \$680
Share exchange component	66 shares	X \$10	<u>= \$660</u>	66 shares	X \$20	<u>= \$1,320</u>
Total cost			= \$1,000			= \$2,000
2. Calculate actual gain/loss on cash component and tax deferred gain/loss on share exchange component using cost amounts from point 1.						
<b>Total Proceeds – Total Cost = Gain/Loss</b>						
Cash component	\$643	- \$340	= \$303 <i>Actual gain</i>	\$643	- \$680	= -\$37 <i>Actual loss</i>
Share exchange component	\$1,222	- \$660	= \$562 <i>Tax deferred gain</i>	\$1,222	- \$1,320	= - \$98 <i>Tax deferred loss</i>



A **taxable gain/loss** is recognized on the **cash component** of the transaction and a **tax deferred gain/loss** is recognized on the **share exchange component**, any subsequent disposition of Pembina shares will be subject to treatment in accordance with applicable tax laws.

	<b>Gain example</b> Veresen share cost = \$10	<b>Loss example</b> Veresen share cost = \$20
Tax cost (adjusted cost base "ACB") of exchanged Pembina shares at date of exchange <sup>1</sup>	<b>= \$ 660</b>	<b>= \$1,320</b>

<sup>1</sup>ACB at date of exchange, any subsequent transaction will affect your ACB of Pembina shares

The adjusted cost base of the exchanged Pembina shares is equal to the adjusted cost base of the exchanged portion of the Veresen shares at the time of the transaction. The share exchange will affect the tax cost of all Pembina shares held by the shareholder.

3. To calculate cost base on a per share basis of the received Pembina shares at the date of exchange, use the total ACB from above and divide by the number of received Pembina shares.

$$\text{ACB of received Pembina shares} / (\text{Number of Veresen shares} \times 0.2809) = \text{Cost base per Pembina share}$$

Cost base per received Pembina share at date of exchange	= \$660 / (100 shares x 0.2809)	= \$1,320 / (100 shares x 0.2809)
	= \$660 / 28 shares <sup>1</sup>	= \$1,320 / 28 shares <sup>1</sup>
	<b>= \$23.57</b>	<b>= \$47.14</b>

<sup>1</sup>Rounded to the nearest whole share

The cost base of an exchanged Pembina share on a per share basis is specific to the received Pembina shares. The share exchange will affect the tax cost of all Pembina shares held by the shareholder.



**Option 2: Shareholders who elected shares or who did not make an election.**

**Shareholder received only shares (0.4287 of a common share of Pembina).**

A shareholder with 100 shares would have received total consideration of \$1,865 for the 100 shares exchanged.

	Consideration	x Number of shares	= Total Proceeds
Pembina Share (\$43.50 x 0.4287)	\$18.65	x 100 shares	= \$1,865

The average cost of Veresen shares held is \$10 to illustrate a potential tax deferred gain and \$20 to illustrate a potential tax deferred loss.

Gain example Veresen share cost = \$10				Loss example Veresen share cost = \$20		
1. Calculate cost of shares for share exchange.						
<b>Number of shares x Veresen share cost = Total Cost</b>						
Share exchange Total cost	100 shares	X \$10	= \$1,000	100 shares	X \$20	= \$2,000
2. Calculate tax deferred gain/loss on share exchange using cost amounts from point 1.						
<b>Total Proceeds – Total cost = Gain/Loss</b>						
Share exchange	\$1,865	- \$1,000	= \$865 <i>Tax deferred gain</i>	\$1,865	- \$2,000	= - \$135 <i>Tax deferred loss</i>

A **tax deferred gain/loss** is recognized on the **share exchange** and **no taxable gain/loss** is recognized, any subsequent disposition of Pembina shares will be subject to treatment in accordance with applicable tax laws.

Tax cost (adjusted cost base “ACB”) of exchanged Pembina shares at date of exchange <sup>1</sup>	<b>= \$ 1,000</b>	<b>= \$ 2,000</b>
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<sup>1</sup>ACB at date of exchange, any subsequent transaction will affect your ACB of Pembina shares

The adjusted cost base of the exchanged Pembina shares is equal to the adjusted cost base of the exchanged Veresen shares at the time of the transaction. The share exchange will affect the tax cost of all Pembina shares held by the shareholder.



<b>Gain example</b> Veresen share cost = \$10		<b>Loss example</b> Veresen share cost = \$20
3. To calculate cost base on a per share basis of the received Pembina shares at the date of exchange, use the total ACB from above and divide by the number of received Pembina shares.		
<b>ACB of received Pembina shares / (Number of Veresen shares x 0.4287) = Cost base per Pembina share</b>		
Cost base per received Pembina share at date of exchange	= \$1,000 / (100 shares x 0.4287) = \$1,000 / 43 shares <sup>1</sup> <b>= \$23.26</b>	= \$2,000 / (100 shares x 0.4287) = \$2,000 / 43 shares <sup>1</sup> <b>= \$46.51</b>

<sup>1</sup>Rounded to the nearest whole share

The cost base of an exchanged Pembina share on a per share basis is specific to the received Pembina shares. The share exchange will affect the tax cost of all Pembina shares held by the shareholder.

## U.S. Resident Veresen Shareholder

IRS Form 8937 includes certain details regarding the transaction and tax consequences that previous Veresen U.S. resident shareholders may find useful. Please refer to the posted Form 8937 and attachments under “Investor Centre” on [www.pembina.com](http://www.pembina.com)

Assumptions:

- The U.S. resident Veresen shareholder held 100 shares of Veresen which were previously purchased at the same time.
- Specific cost of \$10 USD or \$20 USD per Veresen share at original time of purchase for the 100 shares to illustrate a potential gain or loss scenario.
- Unless otherwise stated all amounts are assumed to be in USD.

The tax basis of the Veresen shares exchanged is the specific cost of the group of Veresen shares at the time of purchase. Original share cost is transaction specific therefore please contact your advisor for your fact specific scenario.

Canadian dollar amounts were translated to U.S. dollars using the exchange rate on October 2, 2017 the date of arrangement of 0.7997 USD/CAD.



**Option 1: Shareholders who elected cash and shares or who elected cash.**

*Shareholders received cash and shares (0.2809 of a common share of Pembina plus \$6.4314 CAD in cash)*

A shareholder with 100 shares would have received total consideration of cash and shares equal to \$1,491.

	Consideration	x Number of shares	= Total Proceeds
Cash x exchange rate (\$6.4314 x 0.7997 USD/CAD)	\$5.1432	x 100 shares	= \$514
Pembina Share x exchange rate (\$43.50 x 0.2809) x 0.7997 USD/CAD	<u>\$9.7717</u>	x 100 shares	= <u>\$977</u>
Total	\$14.91		\$1,491

The cash component is 34% of the consideration received and the share exchange component is 66% of the consideration received. The shareholder will recognize a gain equal to the lesser of (i) the built-in gain in his Veresen shares or (ii) the cash received. No loss is recognized on the acquisition.

The specific share cost of Veresen shares held is \$10 to illustrate a potential taxable gain and \$20 to illustrate a potential tax deferred loss.

Gain example Veresen share cost = \$10				Loss example Veresen share cost = \$20		
1. Calculate cost of shares for share exchange.						
<b>Number of shares x Veresen share cost = Total Cost</b>						
Total cost	100 shares	X \$10	= \$1,000	100 shares	X \$20	= \$2,000
2. Calculate built-in gain/loss on the transaction using cost amounts from point 1.						
<b>Total Proceeds – Total Cost = Built-In Gain/Loss</b>						
Built-In Gain/Loss	\$1,491	- \$1,000	= \$491 <i>Built-in gain</i>	\$1,491	- \$2,000	= - \$509 <i>Built-in loss</i>
3. Gain recognized is equal to the lesser of: (i) the built-in gain calculated in point 2 or (ii) the cash proceeds received						
Built-In Gain	= \$491					
Cash Proceeds	= \$514					
	<b>= \$491</b>					
	<b>Taxable gain</b>			<b>= - \$509</b>		
				<b>Tax deferred loss</b>		



Gain example Veresen share cost = \$10		Loss example Veresen share cost = \$20
US tax basis of exchanged Pembina shares at date of exchange	= Total cost – cash proceeds received + actual gain recognized	= Total cost – cash proceeds received
	= \$1,000 - \$514 + \$491 = <b>\$ 977</b>	= \$2,000 - \$514 = <b>\$1,486</b>

For shareholders that recognized a gain on the transaction, the tax basis of the shareholder’s exchanged Pembina shares is equal to the tax basis of the original Veresen shares reduced by the cash received and increased by the gain recognized.

For shareholders that have a built-in loss, no loss is recognized and the tax basis of the US shareholder’s exchanged Pembina shares is equal to the tax basis of the original Veresen shares reduced by the cash received.

3. To calculate cost base on a per share basis of the received Pembina shares at the date of exchange, use the US tax basis from above and divide by the number of received Pembina shares.

$$\text{US tax basis of received Pembina shares} / (\text{Number of Veresen shares} \times 0.2809) = \text{Cost base per Pembina share}$$

Cost base per received Pembina share at date of exchange	= \$977 / (100 shares x 0.2809) = \$977 / 28 shares <sup>1</sup> = <b>\$34.89</b>	= \$1,486 / (100 shares x 0.2809) = \$1,486 / 28 shares <sup>1</sup> = <b>\$53.07</b>
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<sup>1</sup>Rounded to the nearest whole share

The cost base of an exchanged Pembina share on a per share basis is specific to the received Pembina shares.



**Option 2: Shareholders who elected shares or who did not make an election.**

**Shareholders received only shares (0.4287 of a common share of Pembina).**

A shareholder with 100 shares would have received total consideration of \$1,491 for the 100 shares exchanged.

	Consideration	x Number of shares	= Total Proceeds
Pembina Share x exchange rate (\$43.50 x 0.4287) x 0.7997 USD/CAD	\$14.91	x 100 shares	= \$1,491

The specific share cost of Veresen shares held is \$10 to illustrate a potential tax deferred gain and \$20 to illustrate a potential tax deferred loss.

Gain example Veresen share cost = \$10				Loss example Veresen share cost = \$20		
1. Calculate cost of shares for share exchange						
<b>Number of shares x Veresen share cost = Total Cost</b>						
Share exchange Total cost	100 shares	X \$10	= \$1,000	100 shares	X \$20	= \$2,000
2. Calculate tax deferred gain/loss on share exchange component using cost amount from point 1.						
<b>Total Proceeds – Total Cost = Gain/Loss</b>						
Share exchange	\$1,491	- \$1,000	= \$491 <i>Tax deferred gain</i>	\$1,491	- \$2,000	= - \$509 <i>Tax deferred loss</i>

**No taxable gain/loss** is recognized on the share exchange, any subsequent disposition of Pembina shares will be subject to treatment in accordance with applicable tax laws.

US tax basis of exchanged Pembina shares at date of exchange	<b>= \$ 1,000</b>	<b>= \$ 2,000</b>
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The US tax basis of the exchanged Pembina shares is equal to the US tax basis of the exchanged Veresen shares at the time of the transaction.

<b>Gain example</b> Veresen share cost = \$10		<b>Loss example</b> Veresen share cost = \$20
3. To calculate cost base on a per share basis of the received Pembina shares at the date of exchange, use the US tax basis from above and divide by the number of received Pembina shares.		
<b>US tax basis of received Pembina shares / (Number of Veresen shares x 0.4287) = Cost base per Pembina share</b>		
Cost base per received Pembina share at date of exchange	= \$1,000 / (100 shares x 0.4287) = \$1,000 / 43 shares <sup>1</sup> <b>= \$23.26</b>	= \$2,000 / (100 shares x 0.4287) = \$2,000 / 43 shares <sup>1</sup> <b>= \$46.51</b>

<sup>1</sup>Rounded to the nearest whole share

The cost base of an exchanged Pembina share on a per share basis is specific to the received Pembina shares.