PEMBINA

PEMBINA PIPELINE INCOME FUND

2010 INTERIM REPORT Q3

Pembina Pipeline Corporation growth plan achieves major milestones Year-over-year financial gains support future expansion

All financial figures are in Canadian dollars unless noted otherwise. This report contains forward-looking statements and information that are based on Pembina Pipeline Corporation'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 these forward-looking statements. Please see page 24 for more information. This report also refers to financial measures that are not defined by Canadian generally accepted accounting principles ("GAAP"). For more information about these non-GAAP measures please see page 22.

Pembina Pipeline Corporation's common shares and 7.35 percent convertible debentures commenced trading on the Toronto Stock Exchange ("TSX") on October 5, 2010 under the symbols PPL and PPL.DB.B respectively. From September 4, 1997 to September 30, 2010, Pembina Pipeline Corporation was wholly-owned by the Pembina Pipeline Income Fund (the "Fund"); (collectively, Pembina Pipeline Corporation and the Fund are referred to as "Pembina"). This report reflects the financial and operating performance for the three and nine months ending September 30, 2010, and as such references made in this document primarily reflect the Fund. The Fund's Trust Units and convertible debentures were previously traded on the TSX under the symbols PIF.UN and PIF.DB.B respectively.

Pembina Pipeline Corporation achieved several important growth milestones during the third quarter of 2010, making significant progress on projects that are expected to boost net earnings and cash flow from operating activities next year. In addition, the company's year-to-date financial performance provides a strong foundation for future growth projects that Pembina is actively pursuing.

"Pembina is a hub of activity right now. All our growth projects are on budget, on schedule and on track to deliver long-term investor value," said Bob Michaleski, President and Chief Executive Officer. "Just as importantly, our businesses are delivering the financial returns that enable us to pursue our existing, and future, growth plans with confidence."

Revenue, net of product purchases, during the third quarter of 2010 was $123.7 million, compared to $131.1 million during the same period in 2009, a result of tighter margins in Pembina's Midstream & Marketing business. This was offset by gains generated by each of Pembina's other three business units. Conventional Pipelines, Oil Sands & Heavy Oil, and Gas Services all realized modest improvements in revenue during the third quarter of 2010 over the third quarter of 2009. During the first nine months of 2010, Pembina generated revenue, net of product purchases, of $385.1 million, compared to $368.2 million in the first nine months of 2009.

"Our Conventional Pipelines and Gas Services businesses realized improved revenues despite being challenged by continued commodity price volatility, wet weather that impacted our customers' production levels and pipeline apportionments that restricted transportation volumes," said Michaleski. "Going forward, I expect the fourth quarter will produce results that will approximate those generated during the first half of the year. Oil prices appear to be stabilizing in the $80 US/barrel range, there's an increase in drilling activity in the Western Canadian Sedimentary Basin from this time last year and a strong demand for natural gas liquids that benefits our integrated operations."

Operating expenses were $38.7 million during the third quarter of 2010, compared to $39.6 million during the same period in 2009. During the first nine months of 2010, operating expenses were $116 million, compared to $119.5 million during the first nine months of 2009. Lower operating expenses during the quarter partially offset the decline in revenues, bringing net operating income to $85 million during the third quarter of 2010, compared to $91.5 million during the same time period in 2009. Year-to-date net operating income totaled $269.1 million, compared to $248.7 million generated during the nine months ended September 30, 2009.

Net earnings were $42.9 million ($0.26 per Trust Unit) in the third quarter of 2010, compared to $44.7 million ($0.29 per Trust Unit) during the third quarter of 2009. For the nine months ended September 30, 2010, net earnings totaled $135.2 million ($0.83 per Trust Unit), compared to $109.2 million ($0.75 per Trust Unit) during the same period in 2009.

Cash flow from operating activities during the third quarter of 2010 was $65.7 million ($0.40 per Trust Unit), compared to $62.2 million ($0.40 per Trust Unit) during the same time period the year before. Year-to-date cash flow from operating activities was $201.2 million ($1.23 per Trust Unit), compared to $152.6 million ($1.04 per Trust Unit) during the same nine months in 2009.

Distributed cash was $64.0 million during the third quarter of 2010, representing a quarterly payment of $0.39 per Trust Unit ($0.13 per Trust Unit monthly), compared to $60.2 million in the third quarter of 2009 (no change in per Trust Unit payments). Distributed cash year-to-date totaled $190.6 million, compared to $170.9 million during the first nine months of 2009.

Pembina's payout ratio for the third quarter 2010 was 108.3 percent, compared to 90.9 percent during the same period in 2009. On a year-to-date basis, the payout ratio was 99.6 percent in 2010, compared to 96.5 percent during the same nine month period in 2009. The increase in the third quarter of 2010 was due to increased Trust Units outstanding and the corresponding increase in overall distributions, and was in line with management's expectations. Pembina calculates the payout ratio as the percentage of distributable cash (prior to distribution reserve adjustments) that is distributed to unitholders. See "Non-GAAP Measures" on page 22 and "Forward-Looking Statements & Information" on page 24.

Growth Strategy Update

Nipisi & Mitsue Pipeline Projects

With engineering on both projects complete, construction on the Nipisi and Mitsue Pipeline projects is well underway. Right-of-way clearing for the Mitsue Pipeline between Whitecourt and Judy Creek, Alberta is complete, pipeline grading and stringing is more than 50 percent complete and contractors are in the final stages of a horizontal directional drill on the Athabasca River.

While the bulk of the Nipisi Pipeline construction will begin after freeze up, all construction contracts for the project have been awarded and work crews are mobilizing. Pump station construction is also progressing, with 40 percent of the fabrication complete and civil and mechanical work expected to be done before year end.

"We've identified several opportunities to advance construction, which allows us to keep our schedules on track and reduce some of the potential challenges winter weather can create," said Michaleski. "Both projects remain within budget and on schedule and we expect to see the pipelines placed into service mid-2011."

When complete, the pipeline projects are estimated to cost a combined total of $440 million. Based on certain assumptions, Pembina's internal projections estimate the two pipelines together will generate approximately $45 million per annum in net operating income once fully operational (see "Forward-Looking Statements & Information" on page 24).

This expected rate of return reflects the base case for both pipeline projects. "Further value," said Michaleski, "is expected through expansion."

The Nipisi Pipeline can be expanded to 200,000 barrels per day ("bpd") from its current design rate of 100,000 bpd while the Mitsue Pipeline can be expanded to 45,000 bpd from its current design rate of 20,000 bpd. Long-term contracts that would support expansion are being negotiated with potential customers and investment decisions by Pembina are pending. Expansion plans would require regulatory approval, which Pembina will pursue once customer support has been solidified.

"Both Nipisi and Mitsue utilize existing infrastructure and our customers know this can provide them with significant benefits," said Michaleski. "A combination of new construction and reutilizing existing infrastructure helps keep capital costs down and enables us to deliver additional transportation options in a very reasonable time frame."

The Nipisi Pipeline, which transports diluted heavy oil, will run from north of the Town of Slave Lake, Alberta to Judy Creek, Alberta. From there it will connect to an existing pipeline system that delivers products to the Edmonton, Alberta, area. The Mitsue Pipeline is being built to transport condensate (a light hydrocarbon used to dilute heavy oil) from Whitecourt, Alberta to producers operating north of the Town of Slave Lake, Alberta.

Enhanced NGL Extraction

Subsequent to the end of the third quarter, Pembina initiated construction of an enhanced natural gas liquids ("NGL") extraction facility at its Cutbank Complex as well as a 10-kilometre pipeline to deliver the incremental NGL to Pembina's Peace Pipeline. Pembina expects all of the facility's 14,400 bpd extraction capacity will be contracted under terms designed to provide Pembina with cash flow certainty, which reduces the company's exposure to commodity price risk. To date, Pembina has secured an anchor contract with a customer for the majority of the planned capacity at the facility. Further contracts for the remaining capacity are expected to be in place by the facility's mid-2011 in-service date.

"The low natural gas price environment has put a renewed spotlight on the value of natural gas liquids," said Michaleski. "Pembina is structured to extract these liquids and cost-effectively transport them to the marketplace. Other projects like this one are expected in the future. We're receiving lots of interest about potential gathering, processing and pipeline connections that our integrated business model is well suited to serve."

Pembina's priority is to pursue investments that are located near long-life economic hydrocarbon reserves that generate strong returns for the long-term. "This region (Deep Basin, Alberta) has significant supply potential and new technologies are driving production costs down and recovery rates up while the high liquids content creates significant value for customers and integration opportunities for Pembina," said Michaleski. "Our Conventional Pipelines business can transport the NGL, while there's opportunity for our Midstream & Marketing operations to provide additional services for the new volumes."

Cardium Development

Subject to receiving regulatory approval, Pembina plans to spend approximately $40 million over the next 18 months on projects to strengthen the transportation service options it provides producers developing the Cardium oil formation located in central Alberta.

Expansion plans include spending approximately $23 million to increase the capacity of an existing 42 kilometre section of pipeline that transports crude oil between Willesden Green and Buck Creek, Alberta. This expansion is expected to enable Pembina to add an incremental 25,000 bpd to the current capacity of 12,000 bpd by mid-2011. In addition, Pembina plans to spend approximately $6 million to extend segments of its Drayton Valley trunk line and approximately $11 million to debottleneck existing pipeline systems and construct truck terminals in the region.

"We see significant, long-term opportunities associated with the Cardium oil formation," said Michaleski. "We've been talking to area producers about their current and future transportation needs and we've conducted our own third-party assessment of the geology to help determine where promising locations for production may be. This is definitely an area where we expect to see increased demand for our services."

Capacity additions, 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.

Pembina 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. The company is named after the Pembina Oil Field. Discovered in 1953, the Pembina field is, according to various industry and government sources, estimated to contain 10 billion barrels of oil. Only 1.5 billion barrels have been produced to date because resource plays were, in the past, cost prohibitive. New horizontal drilling and 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.

"New technologies are changing the outlook for the conventional oil industry and creating new prospects for Pembina," said Michaleski. "Our strategically located assets enable us to provide transportation service with relatively little incremental capital investment. It may take some time for that production to ramp up, but by readying ourselves now, we expect to maximize the opportunity the Cardium presents."

Corporate Conversion

Effective October 1, 2010, Pembina converted to a dividend-paying corporate entity. Pembina's common shares and convertible debentures commenced trading on the TSX on October 5, 2010 under the symbols "PPL" and "PPL.DB.B", respectively. The Fund's Trust Units and convertible debentures ("PIF.UN", "PIF.DB.B") were de-listed by the TSX that same day. By converting to a corporation, Pembina has avoided the imposition of specified-investment flow through ("SIFT") tax applicable beginning in 2011. Pembina expects conversion to also provide greater access to capital markets, improved liquidity and greater flexibility to pursue growth and expansion.

"Completing corporate conversion is a key step in Pembina's growth strategy and our plans to strengthen our financial performance, maintain our highly competitive dividend and build the long-term value of our shares," said Michaleski. Based on certain assumptions and expectations, Pembina expects to maintain its current level of cash distributions as a dividend of $1.56 per share per year (payable monthly at $0.13 per share) through 2013 (see "Forward-Looking Statements & Information" on page 24).

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 the Pembina Pipeline Income Fund (the "Fund") (collectively, Pembina Pipeline Corporation and the Fund are referred to as "Pembina") is dated November 3, 2010 and is supplementary to, and should be read in conjunction with, the unaudited comparative interim financial statements and notes of Pembina for the three and nine months ended September 30, 2010, along with Pembina's MD&A and audited financial statements and notes for the year ended December 31, 2009. 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 22 for further information about the non-GAAP measures used in this MD&A. This MD&A contains forward-looking statements and information: see "Forward-Looking Statements & Information" on page 24. This MD&A has been reviewed and approved by Pembina's Audit Committee of the Board of Directors and its Board of Directors.

Financial & Operating Overview

(unaudited)

($ millions, except where noted)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Revenue	**272.1**	211.9	**958.6**	555.4
Less: product purchases	**148.4**	80.8	**573.5**	187.2
Net revenue [(1)]	**123.7**	131.1	**385.1**	368.2
Operating expenses	**38.7**	39.6	**116.0**	119.5
Net operating income [(1)]	**85.0**	91.5	**269.1**	248.7
EBITDA [(1)]	**73.7**	80.0	**236.0**	214.1
Net earnings	**42.9**	44.7	**135.2**	109.2
Net earnings per Trust Unit – basic (dollars)	**0.26**	0.29	**0.83**	0.75
Cash flow from operating activities	**65.7**	62.2	**201.2**	152.6
Distributed cash [(1)]	**64.0**	60.2	**190.6**	170.9
Distributed cash per Trust Unit [(1)] (dollars)	**0.39**	0.39	**1.17**	1.17
Capital expenditures	**32.5**	23.1	**73.3**	364.2
Total enterprise value[(1)]	**4,500.2**	3,528.3	**4,500.2**	3,528.3
Total assets	**2,532.4**	2,480.5	**2,532.4**	2,480.5
Average throughput – conventional (thousands of bpd)	**361.4**	389.3	**373.6**	397.9
Contracted capacity – oil sands (thousands of bpd)	**775.0**	775.0	**775.0**	775.0
Average processing volume – gas services [(2)] (mmcf/d net to Pembina)	**215.8**	200.5	**218.0**	200.2

(1) Refer to "Non-GAAP Measures" on page 22. EBITDA in 2009 has been restated to be comparable to 2010.
(2) Operating assets for Gas Services were acquired on June 2, 2009.

Pembina Pipeline Corporation

Pembina 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 also serves customers through a network of terminals, storage facilities, hub services and natural gas gathering and processing facilities. Its common shares and 7.35 percent convertible debentures began trading on the Toronto Stock Exchange ("TSX") under the symbols PPL and PPL.DB.B, respectively, on October 5, 2010.

From September 4, 1997 to September 30, 2010, Pembina was wholly-owned by the Pembina Pipeline Income Fund (the "Fund") (collectively, Pembina Pipeline Corporation and the Fund are referred to as "Pembina"). On October 1, 2010, the Fund completed its previously announced Plan of Arrangement by virtue of which the business of the Fund was reorganized into a dividend-paying corporation, Pembina Pipeline Corporation. Pursuant to the Plan of Arrangement, holders of Trust Units received one common share of Pembina Pipeline Corporation for each Trust Unit held. In addition, pursuant to the Plan of Arrangement, the obligations of the Fund under the outstanding 7.35 percent convertible unsecured subordinated debentures of the Fund due December 31, 2010 were assumed by Pembina Pipeline Corporation. Holders of the debentures will be 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. This report reflects the financial and operating performance for the three and nine months ending September 30, 2010, and as such references made in this document primarily refer to the Fund. The Fund's Trust Units and convertible debentures were previously traded on the TSX under the symbols PIF.UN and PIF.DB.B, respectively.

Strategy

Pembina's business strategy is intended to provide highly competitive and reliable returns to investors through monthly dividends while also enhancing the long-term value of its shares. 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 – which allow 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, acquisition and the development of new services. Pembina's investment criteria includes pursuing projects or assets that are expected to generate increased cash flow and are located in close proximity to 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 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 about 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 enhancement. Operating margins are maintained through incremental volume capture, system expansion, revenue management and operating expense discipline. As of September 30, 2010, throughput averaged 373,600 barrels per day ("bpd"), consisting of an average of 261,500 bpd of crude oil and 112,100 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 Ltd.'s 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. These assets operate under long-term, extendible 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 the Nipisi and Mitsue Pipeline projects, which, when complete, will provide transportation support to producers operating in the Peace River heavy oil region of Alberta. See page 12 for further details.

Midstream & Marketing

This business consists of a network of terminals, storage and hub services operated on Pembina's Conventional Pipelines as well as a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility located near Edmonton, Alberta. By vertically 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. Financial and operating results for Midstream & Marketing from June 1, 2009 to December 31, 2009 included the contribution of Pembina's Gas Services business. Commencing with the first quarter of 2010, Pembina began reporting operational and financial results generated by Gas Services as a separate business unit.

Gas Services

On June 2, 2009, Pembina expanded its business to include natural gas gathering and processing through the acquisition of the Cutbank Complex. Located approximately 100 kilometres south of Grande Prairie, Alberta, the Cutbank Complex includes 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 (capacity of 305 mmcf/d is 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. For the nine months ended September 30, 2010, average processing volume net to Pembina was 218,000 mmcf/d. From June 1, 2009 to December 31, 2009, Pembina reported the financial and operating results for this business under Midstream & Marketing. In 2010, Pembina began reporting the operating and financial results for Gas Services as a separate business unit.

Consolidated Financial Results

(unaudited)

($ millions, except where noted)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Revenue	**272.1**	211.9	**958.6**	555.4
Less: product purchases	**148.4**	80.8	**573.5**	187.2
Net revenue [(1)]	**123.7**	131.1	**385.1**	368.2
Operating expenses	**38.7**	39.6	**116.0**	119.5
Net operating income [(1)]	**85.0**	91.5	**269.1**	248.7
Deduct/(add)				
General and administrative	**11.6**	11.1	**33.2**	34.4
Depreciation and amortization	**16.2**	17.0	**50.4**	56.6
Accretion on asset retirement obligations	**1.8**	2.2	**5.3**	6.4
Interest on long-term debt	**14.1**	13.0	**42.8**	34.8
Interest on convertible debentures	**0.5**	0.8	**1.8**	2.3
Income tax expense (reduction)	**(1.9)**	2.4	**0.5**	4.9
Other	**(0.2)**	0.3	**(0.1)**	0.1
Net earnings	**42.9**	44.7	**135.2**	109.2
Net earnings per Trust Unit – basic (dollars)	**0.26**	0.29	**0.83**	0.75

(1) Refer to "Non-GAAP Measures" on page 22.

Revenue, net of product purchases, during the third quarter of 2010 was $123.7 million, compared to $131.1 million during the same period in 2009, primarily a result of tighter margins in Pembina's Midstream & Marketing business. This was offset by gains generated in each of Pembina's other three business units. Conventional Pipelines, Oil Sands & Heavy Oil, and Gas Services all realized modest improvements in revenue during the third quarter of 2010 over the third quarter of 2009. Conventional Pipelines and Gas Services realized improved revenues despite being challenged by commodity price volatility, wet weather that impacted customers' production levels and pipeline apportionments that restricted transportation volumes. During the first nine months of 2010, Pembina generated revenue, net of product purchases, of $385.1 million, compared to $368.2 million in the first nine months of 2009. Pembina expects revenues during the fourth quarter of 2010 to be more comparable to revenues generated during the first half of the year, reflecting crude oil prices, which appear to be stabilizing in the $80 US/barrel range, increased drilling activity in the region from this time last year and strong demand for natural gas liquids. Pembina also expects investments aimed at improving oil production from the Cardium oil formation to increase throughput volumes on its Conventional Pipelines business as well as demand for Midstream & Marketing services.

Operating expenses were $38.7 million during the third quarter of 2010, compared to $39.6 million during the same period in 2009. During the first nine months of 2010, operating expenses were $116 million, compared to $119.5 million during the first nine months of 2009. The decline in operating expenses benefited net operating income. Net operating income was $85 million during the third quarter of 2010, compared to $91.5 million during the same time period in 2009. Year-to-date net operating income totaled $269.1 million, compared to $248.7 million generated during the nine months ended September 30, 2009.

Net earnings were $42.9 million ($0.26 per Trust Unit) in the third quarter of 2010, compared to $44.7 million ($0.29 per Trust Unit) during the third quarter of 2009. For the nine months ended September 30, 2010, net earnings totaled $135.2 million ($0.83 per Trust Unit), compared to $109.2 million ($0.75 per Trust Unit) during the same period in 2009.

Cash flow from operating activities during the third quarter of 2010 was $65.7 million ($0.40 per Trust Unit), compared to $62.2 million ($0.40 per Trust Unit) the year before. Year-to-date cash flow from operating activities was $201.2 million ($1.23 per Trust Unit), compared to $152.6 million ($1.04 per Trust Unit) during the same nine months in 2009. For more information, see page 14.

Operating Results

(unaudited)

	3 Months Ended September 30, 2010		3 Months Ended September 30, 2009		**9 Months Ended September 30, 2010**		9 Months Ended September 30, 2009	
($ millions)	**Revenue**	**Net Operating Income [1]**	Revenue	Net Operating Income [1]	**Revenue**	**Net Operating Income [1]**	Revenue	Net Operating Income [1]
Conventional Pipelines	**64.4**	**42.1**	62.2	38.2	**193.1**	**127.2**	192.0	110.4
Oil Sands & Heavy Oil	**29.3**	**19.8**	28.5	20.1	**87.6**	**58.3**	85.8	61.9
Midstream & Marketing[2]	**14.5**	**12.2**	25.5	22.9	**58.6**	**51.3**	71.1	63.4
Gas Services[3]	**15.5**	**10.9**	14.9	10.3	**45.8**	**32.3**	19.3	13.0
Total	**123.7**	**85.0**	131.1	91.5	**385.1**	**269.1**	368.2	248.7

[1] Refer to "Non-GAAP Measures" on page 22.
[2] Midstream & Marketing revenue is net of $148.4 million and $573.5 million in product purchase expense for three and nine months ended September 30, 2010 (three and nine months ended September 30, 2009: $80.8 million and $187.2 million).
[3] Operating assets for Gas Services were acquired on June 2, 2009.

Conventional Pipelines

($ millions, except where noted)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Revenue	**64.4**	62.2	**193.1**	192.0
Operating expenses	**22.3**	24.0	**65.9**	81.6
Net operating income [1]	**42.1**	38.2	**127.2**	110.4
Capital expenditures	**7.1**	9.2	**15.7**	27.5
Average throughput (thousands bpd)	**361.4**	389.3	**373.6**	397.9
Operating expenses ($/bbl)	**0.63**	0.63	**0.61**	0.71
Average revenue ($/bbl)	**1.81**	1.61	**1.76**	1.64

[1] Refer to "Non-GAAP Measures" on page 22.

Operational Performance: Throughput

During the third quarter of 2010, Conventional Pipelines throughput averaged 361,400 bpd. The largest contribution to throughput was derived from Alberta-based systems, which transported an average of 343,200 bpd during the quarter. During the same three-month period in 2009, Conventional Pipelines throughput averaged 389,300 bpd. Of that total, Alberta pipelines transported an average of 369,700 bpd. Year-to-date average throughput of 373,600 bpd is lower than the 397,900 bpd average achieved during the same period in 2009.

Throughput declines during the third quarter 2010 reflect wet weather that impacted customers' production levels and pipeline apportionments that restricted transportation volumes. Declines on a year-to-date basis are primarily attributable to Pembina's December 2009 sale of the Cremona Pipeline system, which impacted average throughput by approximately 11,000 bpd; a 15,000 bpd decline on the Bonnie Glen system, which resulted when a major pipeline connection ceased deliveries on March 31, 2010; and discontinued service on the Miscible Flood system on March 31, 2010 (this pipeline will be utilized by the Nipisi and Mitsue Pipeline projects), which reduced throughput by approximately 4,000 bpd. This was offset by throughput increases on the Drayton Valley and Peace systems.

Management believes two key factors should benefit pipeline throughput going forward:

1) In early 2010, the Alberta Government 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 high-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 and this in turn is attracting new investment in exploration and development. Horizontal drilling and multistage-fracturing technology are expected to rejuvenate production from the Cardium oil formation that underlies Pembina's Drayton Valley system and segments of the Peace 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. Since early 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. 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 "New Developments & Outlook" on page 12 for more information about Pembina's plans to support production in the Cardium oil formation.

Financial Performance

Conventional Pipelines generated revenue of $64.4 million during the third quarter of 2010, compared to $62.2 million during the same time period in 2009. For the first nine months of 2010, revenue was $193.1 million, compared to $192.0 million during the same period in 2009. Both the quarterly and year-to-date increases, which occurred despite lower throughputs, were driven by changing receipt point dynamics and toll adjustments.

During the quarter, operating expenses were $22.3 million, compared to the third quarter of 2009 when operating expenses totaled $24.0 million. This decrease is the result of diligent cost management to reduce maintenance and labour costs while enhancing integrity management to help ensure continuing commitments to pipeline integrity, safety and reliability. Operating expenses for the first nine months of 2010 were $65.9 million, compared to $81.6 million over the same period last year. This decrease is attributable to the same factors that impacted third quarter operating expenses.

Commitment to revenue enhancement and cost containment, while providing safe, reliable and cost-effective service to customers has also strengthened margins. For the three months ended September 30, 2010 net operating income was $42.1 million, compared to $38.2 million in 2009. On a year-to-date basis, net operating income was $127.2 million in 2010, compared to $110.4 million in 2009.

As of September 30, capital expenditures for the nine months of 2010 within the Conventional Pipelines business totaled $15.7 million, compared to $27.5 million during the same time period the year before. For more information, see page 16.

Oil Sands & Heavy Oil

($ millions, except where noted)	3 Months Ended Sept. 30, 2010	3 Months Ended Sept. 30, 2009	9 Months Ended Sept. 30, 2010	9 Months Ended Sept. 30, 2009
Revenue	**29.3**	28.5	**87.6**	85.8
Operating expenses	**9.5**	8.4	**29.3**	23.9
Net operating income [(1)]	**19.8**	20.1	**58.3**	61.9
Capital expenditures	**18.4**	13.5	**38.2**	32.9
Capacity under contract (thousands of bpd)	**775.0**	775.0	**775.0**	775.0

[(1)] Refer to "Non-GAAP Measures" on page 22

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

Syncrude Pipeline

The Syncrude Pipeline has a capacity of 389,000 bpd and is fully contracted to the owners of Syncrude Canada Ltd. under an extendible agreement that expires in 2035. Net operating income generated by the Syncrude Pipeline during the third quarter of 2010 was $6.6 million compared to $7.3 million during the third quarter 2009. On a year-to-date basis, net operating income was $19.4 million, compared to $23.6 million generated during the first nine months of 2009. Both the quarterly and year-to-date decrease is largely due to a reduction in the pipeline rate base that became effective in the third quarter of 2009 resulting from the sale of linefill.

Cheecham Lateral

Pembina's Cheecham Lateral has a capacity of 136,000 bpd and is fully contracted to shippers under a contract that expires in 2032. Net operating income generated by the Cheecham Lateral was $1.2 million during the third quarter of 2010, compared to $1.1 million generated during the third quarter of 2009. During the first nine months of 2010, net operating income was $3.4 million, equal to the net operating income generated during the first nine months of 2009.

Horizon Pipeline

The Horizon Pipeline has a capacity of 250,000 bpd and is fully contracted to Canadian Natural Resources Ltd. under an extendible agreement that expires in 2033. Net operating income generated by the Horizon Pipeline during the three months ended September 30, 2010 was $11.7 million, equal to the amount generated during the same time period in 2009. For the first nine months of 2010, net operating income generated by Horizon Pipeline was $34.7 million, compared to $34.8 million during the same period in 2009.

Net operating income for the business on a quarterly and year-to-date basis also benefited from connection fees charged to various oil sands customers on a fee-for-service basis.

Operating expenses in Oil Sands & Heavy Oil were $9.5 million during the third quarter of 2010, compared to $8.4 million during the third quarter 2009. On a year-to-date basis, operating expenses in 2010 were $29.3 million in 2010, compared to $23.9 million in 2009. This increase in both quarter and year-to-date operating expenses is primarily due to higher power costs. These costs flow through to the customer.

As of September 30, 2010, capital expenditures within Oil Sands & Heavy Oil totaled $38.2 million, compared to $32.9 million during the same time period in 2009. The majority of the 2010 investment – $34.8 million – constitutes spending to progress the Nipisi and Mitsue Pipeline projects. For more information, see page 16.

Midstream & Marketing

($ millions)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009[1]	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009[1]
Revenue	**162.9**	106.3	**632.1**	258.3
Less: product purchases	**148.4**	80.8	**573.5**	187.2
Net revenue[2]	**14.5**	25.5	**58.6**	71.1
Operating expenses	**2.3**	2.6	**7.3**	7.7
Net operating income [2]	**12.2**	22.9	**51.3**	63.4
Capital expenditures	**5.2**	0.4	**8.1**	26.5

[1] 2009 Midstream & Marketing results have been restated to exclude the contribution of Gas Services.
[2] Refer to "Non-GAAP Measures" on page 22.

Midstream & Marketing recorded revenue, net of product purchases, of $14.5 million during the third quarter of 2010, compared to $25.5 million during the third quarter of 2009. On a year-to-date basis, revenue, net of product purchases was $58.6 million, compared to $71.1 million in 2009.

The quarterly and year-to-date decline in net revenue reflects tighter margins. While the day-to-day business activity of Midstream & Marketing increased during the quarter, the margins generated by the business narrowed, decreasing net revenue. As with Conventional Pipelines, this business was also hindered by wet weather that impacted production levels and pipeline apportionments that restricted transportation volumes during the third quarter 2010. On a year-to-date basis revenue also reflects the impact of throughput declines resulting from the sale of the Cremona system, delivery changes on Bonnie Glen and discontinued service on Miscible Flood (see page 8 for more information).

Offsetting the decline in revenue was a modest reduction in operating expenses. During the three months ended September 30, 2010, operating expenses were $2.3 million, compared to $2.6 million in the third quarter of 2009. On a year-to-date basis, operating expenses were $7.3 million in 2010 compared to $7.7 million in 2009. Net operating income was $12.2 million during the third quarter of 2010, compared to $22.9 million during the third quarter of 2009. Year-to-date net operating income totaled $51.3 million, compared to the $63.4 million generated in the first nine months of 2009. The decline in net operating income on both the quarterly and year to date basis reflects the same factors that impacted net revenue.

As of September 30, 2010 capital expenditures within Midstream & Marketing totaled $8.1 million, compared to $26.5 million during the first nine months of 2009. For more information, see page 16.

Gas Services

($ millions, except where noted)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010[2]**	9 Months Ended Sept. 30, 2009[2]
Revenue	**15.5**	14.9	**45.8**	19.3
Operating expenses	**4.6**	4.6	**13.5**	6.3
Net operating income [1]	**10.9**	10.3	**32.3**	13.0
Capital expenditures[2]	**1.3**		**10.3**	277.3
Average processing volume (mmcf/d net to Pembina)	**215.8**	200.5	**218.0**	200.2

[1] Refer to "Non-GAAP Measures" on page 22.
[2] 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 $15.5 million during the third quarter of 2010, compared to $14.9 million during the same time period in 2009. This increase primarily reflects higher processing volume at the Cutbank Complex. Average processing volume, net to Pembina, was 215.8 mmcf/d during the third quarter of 2010, compared to 200.5 mmcf/d during the third quarter of 2009. Higher processing volumes during the first nine months of 2010 have also benefited year-to-date revenues for 2010; however, a full comparison to 2009 cannot be made as the business' operating assets were acquired in June of that year.

During the third quarter of 2010, operating expenses were $4.6 million, consistent with the third quarter of 2009. Gas Services contributed $10.9 million in net operating income during the third quarter of 2010, comparable to the $10.3 million generated in the third quarter of 2009.

Gas Services has started construction on a project to enhance NGL extraction at the Cutbank Complex. For details, see below. This project, along with work to upgrade the business' natural gas gathering system, has brought year-to-date spending to $10.3 million, compared to $277.3 million in the prior year. For more information, see page 16.

New Developments & Outlook

Nipisi & Mitsue Pipeline Projects

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

Project engineering is now complete and pump station construction, clearing the pipeline right-of-way and initiating horizontal drilling on water crossings is well underway. All contracts have been awarded and work crews are mobilizing in order to begin pipeline construction in early December. Pembina expects to place both lines into service mid-2011.

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 24).

The Nipisi Pipeline, designed to initially transport 100,000 barrels per day ("bpd") of diluted heavy oil, will originate north of the Town of Slave Lake, Alberta and run south to Judy Creek, Alberta. From there it will connect to Pembina's existing pipeline system that delivers products to the Edmonton area. The Mitsue Pipeline is designed to initially transport approximately 20,000 bpd of condensate (a light hydrocarbon used to dilute heavy oil) from Whitecourt, Alberta to producers operating north of the Town of Slave Lake, Alberta.

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. Long-term contracts that would support expansion are currently being negotiated with potential customers and investment decisions by Pembina are pending. Both expansion cases would require regulatory approval, which Pembina plans to pursue once customer support has been solidified.

Enhanced NGL Extraction

Subsequent to the third quarter, 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. Pembina expects all of the plant's 14,400 bpd extraction capacity will be contracted under terms designed to provide Pembina with cash flow certainty, which significantly reduces 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 by the mid-2011 in service date.

The new facility will extract a predominately ethane-based product (included in that volume will also be residual amounts of butane and propane). Ethane is used as a petrochemical feedstock to make ethylene.

Cardium Development

Subject to receiving regulatory approval, Pembina plans to spend approximately $40 million over the next 18 months on projects to strengthen the transportation service options it provides producers developing the Cardium oil formation located in central Alberta.

Expansion plans include spending approximately $23 million to increase the capacity of an existing 42 kilometre section of pipeline that transports crude oil between Willesden Green and Buck Creek, Alberta. This expansion is expected to enable Pembina to add an incremental 25,000 bpd to the current capacity of 12,000 bpd by mid-2011. In

addition, Pembina plans to spend approximately $6 million to extend segments of its Drayton Valley trunk line and approximately $11 million to debottleneck existing pipeline systems and construct truck terminals in the region.

Pembina 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. The company is named after the Pembina Oil Field. Discovered in 1953, the Pembina field is, according to various industry and government sources, estimated to contain 10 billion barrels of oil. Only 1.5 billion barrels have been produced to date because resource plays were, in the past, cost prohibitive. 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, other expansion opportunities are being examined.

Cash Distributions & Dividends

Based on certain assumptions, and subject to compliance with applicable law, Pembina expects to maintain its cash distribution of $1.56 per Trust Unit per year (payable monthly at $0.13 per share per month) as a dividend through 2013 (see "Forward-Looking Statements & Information" on page 24). As of September 30, 2010, cumulative cash distributions made since the Fund's inception in September 1997 are approximately $15.01 per Trust Unit. Dividends are payable if, as, and when declared by Pembina's Board of Directors 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 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 gains.

Expenses

General & Administrative

General and administrative expenses ("G&A") of $11.6 million were incurred during the third quarter of 2010 (approximately 13.6 percent of net operating income). This compares to $11.1 million incurred during the third quarter of 2009 (approximately 12.2 percent of net operating income). The increase primarily reflects legal and other costs relating to corporate conversion and conversion to International Financial Reporting Standards ("IFRS") (see page 17). Year-to-date G&A totaled $33.2 million compared to $34.4 million incurred during the same period in 2009. This decrease is primarily due to a reduction in the use of third-party consultants during the first half of the year. Pembina expects G&A expenses to remain steady over the balance of the year and to approximate 13.1 percent of net operating income in 2010, compared to 15.2 percent in 2009.

Depreciation & Amortization

Depreciation and amortization was $16.2 million during the third quarter 2010, compared to $17.0 million during the same period of 2009. The decrease reflects the disposition of certain non-material assets as well as revision of estimates made during 2010. On a year-to-date basis, depreciation and amortization was $50.4 million in 2010, compared to $56.6 million during the first nine months of 2009.

Accretion on Asset Retirement Obligations

Accretion on asset retirement obligations was $1.8 million during the three months ended September 30, 2010, compared to $2.2 million for the same period in 2009. For the nine months ended September 30, 2010, accretion on asset retirement obligations was $5.3 million, compared to $6.4 million during the same period in 2009. The decrease year-over-year is due to revision of estimates made during 2010.

Interest Expense & Financial Instruments

Interest expense for long-term debt was $14.1 million during the third quarter of 2010, compared to $13.0 million during the same time period in 2009. Year-to-date interest expense for long-term debt was $42.8 million, compared to the $34.8 million incurred during the first half of 2009. This increase is primarily due to an increase in average debt outstanding and a higher proportion of fixed rate debt.

Distributed Cash

($ millions, except where noted)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Cash flow from operating activities	**65.7**	62.2	**201.2**	152.6
Add/(deduct):				
Employee future benefits expense	**(1.4)**	(1.6)	**(4.3)**	(4.9)
Employee future benefits contributions	**2.0**	2.1	**6.0**	7.5
Changes in non-cash working capital	**(6.1)**	3.8	**(10.3)**	22.5
Other	**(1.1)**	(0.2)	**(1.2)**	(0.6)
Distributable cash [1]	**59.1**	66.3	**191.4**	177.1
(Increase) decrease in distribution reserve	**4.9**	(6.1)	**(0.8)**	(6.2)
Distributed cash [1]	**64.0**	60.2	**190.6**	170.9
Distributable cash [1] per Trust Unit (dollars per Trust Unit)	**0.3601**	0.4293	**1.1736**	1.2116
Distributed cash per Trust Unit [1] (dollars per Trust Unit)	**0.3900**	0.3900	**1.1700**	1.1700
Diluted distributed cash per Trust Unit	**0.3858**	0.3849	**1.1533**	1.1534
Payout ratio[1]	**108.3%**	90.9%	**99.6%**	96.5%

[1] Refer to "Non-GAAP Measures" on page 22.

Cash Flow from Operating Activities & Net Earnings Compared to Distributed Cash

($ millions)	**9 Months Ended Sept. 30, 2010**	2009	2008	2007
Cash flow from operating activities	**201.2**	224.6	219.9	189.5
Net earnings	**135.2**	162.1	161.8	142.3
Distributed cash[1]	**190.6**	232.3	198.8	178.9
Excess (shortfall) of cash flow from operating activities over distributed cash	**10.6**	(7.7)	21.1	10.6
Excess (shortfall) of net earnings over distributed cash	**(55.4)**	(70.2)	(37.0)	(36.6)

[1] Refer to "Non-GAAP Measures" on page 22.

The continued growth in distributed cash reflects growth in both Pembina's assets and historical unitholder base.

Historical distributed cash compared to cash flow from operating activities shows excess cash flow in every period except in 2009 (see table above). The shortfall of $7.7 million in 2009 was primarily due to changes in non-cash working capital and the use of the Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP") to partially finance the Nipisi and Mitsue Pipeline projects, which increased distributed cash by $10.4 million. Distributed cash to unitholders is greater than net earnings in each period, as Pembina does not consider it necessary to retain non-cash depreciation that has been deducted in the determination of net earnings. Pembina generally does not expect earning capacity of its existing assets to erode or to be replaced provided they are properly maintained. Such maintenance costs are deducted in the calculation of net earnings. Capital additions are expected to increase the earning capacity of Pembina and are anticipated to be financed in either the debt or equity markets and are not dependent on cash flow from operating activities.

Pembina's payout ratio for the third quarter 2010 was 108.3 percent, compared to 90.9 percent during the same period in 2009. On a year-to-date basis, the payout ratio was 99.6 percent in 2010, compared to 96.5 percent during the same nine month period in 2009. The increase in the third quarter of 2010 was due to increased Trust Units outstanding and the corresponding increase in overall distributions, and was in line with management's expectations. Pembina calculates the payout ratio as the percentage of distributable cash (prior to distribution reserve adjustments) that is distributed to unitholders. See "Non-GAAP Measures" on page 22 and "Forward-Looking Statements & Information" on page 24.

Following completion of the corporate conversion on October 1, 2010, Pembina no longer pays cash distributions, but instead pays dividends to holders of common shares. Dividends are payable if, as, and when declared by Pembina's

Board of Directors 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.

Liquidity & Capital Resources

($ millions)	**9 Months Ended Sept. 30, 2010**	December 31 2009
Working Capital[(1)]	**(90.2)**	(116.5)
Variable rate debt		
Bank debt	**297.5**	359.1
Variable rate debt swapped to fixed	**(200.0)**	(200.0)
Total variable rate debt outstanding (average rate of 3.00%)	**97.5**	159.1
Fixed rate debt		
Senior unsecured notes	**642.0**	642.0
Senior unsecured term debt	**75.0**	75.0
Senior secured notes	**67.9**	73.4
Variable rate debt swapped to fixed	**200.0**	200.0
Total fixed rate debt outstanding (average rate of 5.66%)	**984.9**	990.4
Convertible debentures	**26.5**	36.6
Total debt and debentures outstanding	**1,108.9**	1,186.1
Cash and unutilized debt facilities	**304.5**	394.9

(1) Current assets less current liabilities.

Pembina anticipates cash flow from operating activities will be more than sufficient to meet its short-term operating obligations and fund its targeted dividend level. In the medium-term, funds required for capital projects are expected to be sourced from existing cash and unutilized debt facilities of $304.5 million. In the event of additional significant projects or acquisitions, Pembina believes, based on its successful access to financing in the debt and equity markets during 2009 that 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.

Pembina's credit facilities at September 30, 2010 consisted of an unsecured $500 million revolving credit facility due July 2012 and an unsecured $50 million non-revolving credit facility due December 2010 (in May 2010, Pembina reduced the unsecured non-revolving credit facility when it paid $100 million towards the debt). In addition, Pembina has an operating facility of $50 million, which has been extended to July 2011. All borrowings bear interest at prime lending rates plus 2.75 percent 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 September 30, 2010, Pembina had $297.5 million drawn on bank debt (including $7.4 million of letters of credit) leaving $304.5 million of cash and unutilized debt facilities (cash as at September 30, 2010: $2 million) on the $600 million of established bank facilities. Other debt includes $67.9 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 September 30, 2010, Pembina had long-term debt (excluding deferred financing fees) of $1,075 million. This long-term debt, together with $45.3 million fair value of outstanding convertible debentures (which mature December 31, 2010), resulted in a ratio of total debt to total enterprise value of 24.9 percent, compared to a ratio of 30.1 percent at December 31, 2009. See "Non-GAAP Measures" on page 22.

During the third quarter of 2010, $7.9 million in net debt financing costs were recorded, compared to $8.8 million in the third quarter of 2009.

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.

Capital Expenditures

($ millions)	3 Months Ended Sept. 30, 2010	3 Months Ended Sept. 30, 2009	9 Months Ended Sept. 30, 2010	9 Months Ended Sept. 30, 2009
Conventional Pipelines	**7.1**	9.2	**15.7**	27.5
Oil Sands & Heavy Oil	**0.8**	4.3	**3.4**	13.3
Nipisi & Mitsue Pipeline projects	**17.6**	9.2	**34.8**	19.6
Total Oil Sands & Heavy Oil	**18.4**	13.5	**38.2**	32.9
Midstream & Marketing	**5.2**	0.4	**8.1**	26.5
Gas Services[1]	**1.3**		**10.3**	277.3
Corporate/other projects	**0.5**		**1.0**	
Total	**32.5**	23.1	**73.3**	364.2

[1] Operating assets for Gas Services were acquired on June 2, 2009 for $274 million.

On a quarterly basis in 2010, capital expenditures were $32.5 million compared to $23.1 million during the same three month period in 2009. The increase primarily reflects investments made to expand Pembina's Oil Sands & Heavy Oil business through the Nipisi and Mitsue Pipeline projects. Investments on truck terminals within Midstream & Marketing also contributed to higher capital expenditures in the third quarter 2010.

On a year-to-date basis, 2010 spending was $73.3 million, compared to $364.2 million during the same nine month period in 2009. Spending in 2009 was higher primarily as a result of costs associated with establishing Pembina's Gas Services business ($274 million to acquire the Cutbank Complex). In addition, 2009 capital spending also included costs to expand Midstream & Marketing's Alberta-based crude oil hubs and truck terminals and work to complete connections and upgrades in the Conventional Pipelines business.

Pembina expects to spend approximately $272 million on capital projects during 2010, an increase over the company's original estimate of $240 million. The increase reflects investments to enhance natural gas gathering, processing and NGL extraction within the Gas Services business and spending to develop Conventional Pipelines' NGL and crude oil transportation service in the Cardium oil formation. Pembina's 2010 capital spending plan also includes an estimated $152 million to advance the Nipisi and Mitsue Pipeline projects.

Contractual Obligations

($ millions)	Payments Due By Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Office and vehicle leases	13.7	5.0	8.6	0.1	
Long-term debt	1,075.0	78.0	497.2	21.7	478.1
Convertible debentures	26.5	26.5			
Construction commitments	384.1	384.1			
Total contractual obligations	1,499.3	493.6	505.8	21.8	478.1

Pembina is, subject to certain conditions, contractually committed to the construction and the operation of the Nipisi and Mitsue Pipeline projects and the construction and operation of enhanced NGL extraction plant at its Cutbank Complex. Pembina expects the combined cost of the Nipisi and Mitsue pipelines to total approximately $440 million. To date, $110 million has been spent. Pembina is utilizing undrawn credit facilities to finance the costs of the Nipisi and Mitsue Pipelines. Pembina remains contractually obligated to expand the Horizon Pipeline and once project timing is confirmed, the cost of this contractual obligation will be updated and disclosed to investors.

See "Forward-Looking Statements & Information" on page 24 of this report.

Trust Unit /Common Share & Convertible Debenture Information

	Nov. 1, 2010[2]	Sept. 30, 2010	Sept. 30, 2009
Trust Units /Common Shares Outstanding [1]	**164,872,456**	164,472,577	155,354,016
Average Daily Volume (Units per day)	**811,489**	278,484	329,742
Trading Price ($/Trust Unit/Common Shares) [3]	**21.91**	20.55	15.40
Principal Amount of Debentures Outstanding ($ millions)	**25.2**	27.7	40.6
7.35% Convertible Debentures Trading Price [4]	**176.25**	163.43	123.00
Total Market Value of Securities Outstanding ($ millions)	**3,656.80**	3,425.15	2,442.20

Pembina's convertible debentures are convertible to common shares at conversion prices of ($/Common Share):	
7.35% Convertible Debentures maturing December 31, 2010	12.50

[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 the 21 trading days from October 1 to November 1, inclusive.
[3] End of Period.
[4] Full conversion to common shares of the remaining principal amount of the debenture issue as at November 1, 2010, would result in the issuance of approximately 2 million common shares with an effective conversion price of $12.50 per common shares.

As at September 30, 2010, non-resident holdings in Pembina were less than 20 percent. This level is within the 49 percent restriction on non-resident ownership imposed by Pembina's Declaration of Trust and is consistent with the requirements of the Income Tax Act (Canada).

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 quarter ended September 30, 2010. All critical accounting estimates are presented in Pembina's MD&A for the year ended December 31, 2009, available under Pembina's profile at www.sedar.com.

International Financial Reporting Standards ("IFRS")

The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") confirmed in February 2008 that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2011, with early adoption starting in 2009. Although IFRS uses a conceptual framework similar to Canadian GAAP, IFRS will require increased financial statement disclosures.

It is Pembina's intention to prepare its interim and annual consolidated financial statements in accordance with IFRS from the financial year beginning January 1, 2011. Effective from that date, it is also Pembina's intention to adopt IFRS as its primary accounting principles. Consequently, Pembina will, from the same point in time, reconcile its primary IFRS Financial Statements to Canadian GAAP, representing a change from its current full Canadian GAAP reporting.

Pembina has established an IFRS conversion plan, which includes regular progress reporting to the Audit Committee and the Board of Directors. The IFRS conversion plan consists 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.	Substantially complete
	Full information technology impact assessment.	Substantially complete
	Impact assessment of internal controls over financial reporting and disclosure controls and procedures.	Substantially complete
	Business activity impact assessment including, but not limited to, cost of service agreements, debt agreements, compensation structures and other contracts.	Substantially 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.	In progress
	Assessment of impact on financial statement Note disclosure.	In progress
	Documentation of impact assessment of additional non-key area IFRS standards.	Substantially complete
	Further analysis of impact on internal controls over financial reporting and disclosure controls and procedures.	In progress
	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.	In progress
3. Implementation and Review Phase This phase involves formal authorization 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.	In progress
	Complete reconciliation from IFRS to Canadian GAAP equity and income and preparation and audit of the January 1, 2010 opening balance sheet.	In progress
	Specified audit procedures of identified differences.	In progress
	Training.	Ongoing

Pembina has identified a number of key differences between the current accounting policies and those it expects to apply in preparation of IFRS statements. The final accounting policy decisions must receive approval from the Audit Committee which will in turn, make recommendations to Pembina's Board of Directors. In the third quarter 2010, two new members joined Pembina's Audit Committee. In order to progress to final approval, Pembina is updating the new Audit Committee members on the progress to date, including all IFRS accounting policy decisions and expected quantified differences. The key differences and their qualitative description were disclosed in Pembina's Q1 2010 MD&A report and continue to include the following:

1) Asset Retirement Obligation
2) Employee Benefits
3) Investment in Associates and Joint Ventures
4) Share-based Payments – Stock options
5) Leases/Classification

Additional key differences identified:

1) Income Tax – Pembina is in the process of determining the full impact of the standard.
2) Hedge Accounting – Pembina decided that current interest rate and power derivatives do not qualify for hedge accounting treatment under IFRS requirements. On transition, Pembina will therefore terminate hedge accounting. Future valuation fluctuations would flow through the income statement resulting in increased volatility for future periods.
3) Share-based Payments – The current Restricted Trust Unit plan (which was assumed by Pembina Pipeline Corporation in the corporate conversion of the Fund) will be accounted for as a cash settled plan and will be measured at fair value.

Areas previously disclosed that are no longer considered to be a source for a key difference on transition:

1) Property, Plant and Equipment (componentization): Pembina has completed the review of PP&E for components and does not expect any material impact on transition.
2) Impairment of Long-lived Assets: Cash generating units have been determined and goodwill is currently being tested for impairment. No impairments are expected to be recognized on transition.
3) Trust Unit Classification: Pembina has concluded that its units – although considered a financial liability (due to the redemption feature) – meet the requirements of IFRS and will be presented as equity in the comparatives to the 2011 financial statements.

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.
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.

Pembina continues to assess the standards and policy choices available under IFRS. At this time, Pembina is not able to quantify the impact of adopting IFRS. In addition, due to anticipated changes to certain international standards prior to the adoption of IFRS, accounting policy choices are subject to change based on new facts and circumstances that arise after the date of this MD&A. Additional information will be provided as Pembina moves toward the changeover date.

Risk Factors

Management has identified the primary risk factors that could potentially have a material impact on the financial results and operations of Pembina. Such risk factors are presented in the MD&A for the year ended December 31, 2009 and in Pembina's Annual Information Form for the year ended December 31, 2009. These documents are available on www.pembina.com and on www.sedar.com.

Selected Quarterly Financial Information

	2010			2009				2008	
($ millions, except where noted)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	**272.1**	**391.8**	**294.6**	256.4	211.9	185.5	158.0	149.4	201.3
Less: product purchases	**148.4**	**261.9**	**163.1**	127.2	80.8	64.4	41.9	24.0	84.2
Net Revenue[1]	**123.7**	**129.9**	**131.5**	129.2	131.0	121.1	116.1	125.4	117.1
Operating expenses	**38.7**	**39.1**	**38.3**	39.7	39.6	35.8	44.1	42.4	40.1
Net operating income[1]	**85.0**	**90.8**	**93.2**	89.5	91.5	85.3	72.0	82.9	76.9
EBITDA[1]	**73.7**	**79.1**	**83.2**	72.2	62.2	70.2	59.8	66.8	85.0
Cash flow from operating activities	**65.7**	**68.1**	**67.3**	72.0	62.2	49.2	41.2	63.5	50.5
Cash flow from operating activities per Trust Unit ($ per Unit)	**0.40**	**0.42**	**0.42**	0.46	0.40	0.33	0.30	0.47	0.38
Net earnings	**42.9**	**41.2**	**51.1**	52.9	44.7	36.2	28.3	39.0	48.1
Net earnings per Trust Unit ($ per Unit):									
Basic	**0.26**	**0.25**	**0.32**	0.34	0.29	0.25	0.21	0.29	0.36
Diluted	**0.26**	**0.25**	**0.31**	0.33	0.29	0.24	0.21	0.29	0.35
Distributed cash[1]	**64.0**	**63.8**	**62.8**	61.4	60.2	57.5	53.2	52.3	50.7
Distributed cash per Trust Unit[1] ($ per Unit):									
Basic	**0.3900**	**0.3900**	**0.3900**	0.3900	0.3900	0.3899	0.3900	0.3900	0.3800
Diluted	**0.3858**	**0.3861**	**0.3836**	0.3848	0.3849	0.3847	0.3843	0.3840	0.3729
Trust Units outstanding (thousands):									
Weighted average (basic)	**164.0**	**163.2**	**161.8**	157.5	154.4	147.5	136.3	134.1	133.5
Weighted average (diluted)	**166.9**	**166.2**	**165.2**	160.9	157.8	150.9	139.8	137.7	137.6
End of period	**164.5**	**163.6**	**162.2**	158.6	155.4	152.6	137.3	134.7	133.6

[1] Refer to "Non-GAAP Measures" on page 22.

Selected Quarterly Operating Information

	2010			2009				2008	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average throughput (thousands of barrels per day)									
Alberta	**343.2**	**352.3**	**370.2**	361.2	369.7	373.2	392.1	410.8	408.4
British Columbia	**18.2**	**18.1**	**19.1**	18.2	19.6	18.9	20.4	23.3	22.2
Total Conventional Throughput	**361.4**	**370.4**	**389.3**	379.4	389.3	392.1	412.5	434.1	430.6
Oil Sands & Heavy Oil	**775.0**	**775.0**	**775.0**	775.0	775.0	775.0	775.0	775.0	775.0
Total average throughput	**1,136.4**	**1,145.4**	**1,164.3**	1,154.4	1,164.3	1,167.1	1,187.5	1,209.1	1,205.6
Average daily Cutbank Complex (mmcf/d net to Pembina)	**215.8**	**221.6**	**216.9**	197.4	200.5				
Conventional Pipelines Revenue ($ per barrel)									
Alberta	**1.79**	**1.76**	**1.70**	1.62	1.58	1.62	1.59	1.44	1.53
British Columbia	**1.98**	**1.75**	**1.90**	2.23	1.84	1.91	2.29	2.46	2.25
Average Conventional Revenue	**1.81**	**1.76**	**1.72**	1.68	1.61	1.65	1.63	1.55	1.61
Operating Expenses ($ per barrel)									
Alberta	**0.59**	**0.56**	**0.57**	0.59	0.60	0.63	0.79	0.65	0.69
British Columbia	**0.97**	**0.95**	**0.86**	0.89	0.83	1.03	1.17	1.40	0.85
Average	**0.63**	**0.60**	**0.60**	0.62	0.63	0.67	0.81	0.73	0.71

Additional Information

Additional information relating to Pembina, including its Annual Information Form, financial statements and MD&A can be found at www.pembina.com or at www.sedar.com.

Non-GAAP Measures

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

Distributable cash

Distributable cash is a non-GAAP measure the Fund uses to manage its business and to assess future cash requirements that impact the determination of future distributions to unitholders. Pembina defines distributable cash as cash flow from operating activities less pension and post retirement benefit expense net of contributions, net changes in non-cash working capital, Trust Unit based compensation expense and amortization of financing fees. The impact of these items is excluded in the calculation of distributable cash as it adjusts for timing differences throughout the year. Not all available cash is distributed to unitholders.

Distributed cash

Pursuant to the terms in the Fund's Declaration of Trust, distributed cash is the amount of cash that has been or is to be distributed to unitholders. Distributed cash is a measure Pembina uses to manage its business and is commonly used by management, along with other measures, to determine payout ratio. This measure is also used by management and the investment community to assess the sustainability of cash distributions.

Distributed cash per Trust Unit

Distributed cash per Trust Unit is a measure which summarizes the distributions that unitholders have received on a basic and diluted level and is calculated by dividing distributed cash by the weighted average number of basic and diluted Trust Units outstanding during the period.

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

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

Total enterprise value

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

Net revenue

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

Net operating income

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 other measures, is used by management and the investment community to assess the source and sustainability of cash distributions.

Payout ratio

Payout ratio is Pembina's distributed cash to unitholders divided by its distributable cash at the end of a period. This measure, in combination with other measures, is used by management and the investment community to assess the sustainability of cash distributions.

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 distributable cash, distributed cash, EBITDA, total enterprise value, net revenue, net operating income and payout ratio, should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of Pembina's performance. Furthermore, these non-GAAP measures may not be comparable to similar measures presented by other issuers.

Forward-Looking Statements & Information

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

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

- the 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 Nipisi and Mitsue Pipeline projects, the proposed NGL extraction facility at the Cutbank complex, facilities and other energy infrastructure;
- pipeline 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 and the tax treatment thereof;
- operating risks (including the amount of future liabilities related to environmental incidents) 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, the in-service date will be in mid-2011; 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 NGL extraction facility; and 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 Pembina's Management's Discussion and Analysis for the year ended December 31, 2009 and in Pembina's current Annual Information Form available under the Fund'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 proposed 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.

For additional detail and information, please see Pembina's public disclosure documents, including the Pembina's annual information form for the year ended December 31, 2009 and the Pembina's MD&A for the year ended December 31, 2009, each of which can be found under Pembina's SEDAR profile at www.sedar.com.

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)

	Sept. 30 2010	December 31 2009
Assets		
Current assets:		
Cash and short term investments	**2,022**	53,927
Accounts receivable and other	**75,462**	83,244
Inventory	**25,651**	18,998
	103,135	156,169
Property, plant and equipment (Note 3)	**2,051,778**	2,045,917
Goodwill and other (Note 4)	**377,452**	379,039
	2,532,365	2,581,125
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**67,504**	57,997
Distributions payable to Unitholders	**21,361**	20,616
Current portion of long-term debt	**77,981**	157,423
Convertible debentures	**26,506**	36,640
	193,352	272,676
Long-term debt	**989,081**	973,522
Derivative financial instruments (Note 9)	**15,935**	5,481
Asset retirement obligations (Note 6)	**81,565**	104,204
Future income taxes (Note 5)	**94,797**	95,870
	1,374,730	1,451,753
Unitholders' equity:		
Trust Units (Note 7)	**1,752,298**	1,660,795
Deficit	**(582,450)**	(527,082)
Accumulated other comprehensive income (loss)	**(12,213)**	(4,341)
	1,157,635	1,129,372
	2,532,365	2,581,125

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT
(unaudited)

($ thousands, except per Trust Unit amounts)

	3 Months Ended Sept. 30, 2010	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Revenues:				
Conventional Pipelines	**64,381**	62,176	**193,071**	192,021
Oil Sands & Heavy Oil	**29,292**	28,575	**87,614**	85,837
Midstream & Marketing	**162,945**	106,224	**632,054**	258,241
Gas Services	**15,519**	14,883	**45,836**	19,260
	272,137	211,858	**958,575**	555,359
Expenses:				
Operations	**38,652**	39,550	**116,005**	119,463
Product purchases	**148,437**	80,835	**573,485**	187,174
General and administrative	**11,569**	11,132	**33,213**	34,458
Depreciation and amortization (Note 3 and Note 4)	**16,232**	16,965	**50,412**	56,607
Accretion on asset retirement obligations (Note 6)	**1,784**	2,186	**5,284**	6,358
Other	**(188)**	337	**(134)**	121
	216,486	151,005	**778,265**	404,181
Earnings before interest and taxes	**55,651**	60,853	**180,310**	151,178
Interest on long-term debt	**14,060**	12,979	**42,807**	34,793
Interest on convertible debentures	**548**	750	**1,811**	2,292
Earnings before taxes	**41,043**	47,124	**135,692**	114,093
Future Income tax expense (Note 5)	**(1,900)**	2,428	**500**	4,943
Net earnings	**42,943**	44,696	**135,192**	109,150
Deficit, beginning of period	**(561,396)**	(503,078)	**(527,082)**	(456,856)
Distributed cash	**(63,997)**	(60,219)	**(190,560)**	(170,895)
Deficit, end of period	**(582,450)**	(518,601)	**(582,450)**	(518,601)
Earnings per Trust Unit - basic (Note 8)	**0.26**	0.29	**0.83**	0.75
Earnings per Trust Unit - diluted (Note 8)	**0.26**	0.29	**0.82**	0.74

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

($ thousands)

	3 Months Ended Sept. 30, 2010	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Net earnings for the period	**42,943**	44,696	**135,192**	109,150
Other comprehensive income:				
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $1.8 million and $2.6 million, respectively	**(5,438)**	(996)	**(7,872)**	3,885
Total comprehensive income	**37,505**	43,700	**127,320**	113,035
Accumulated other comprehensive loss:				
Opening balance, net of tax of $2.3 million and $1.4 million, respectively	**(6,775)**	(5,727)	**(4,341)**	(10,608)
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $1.8 million and $2.6 million, respectively	**(5,438)**	(996)	**(7,872)**	3,885
Accumulated other comprehensive loss	**(12,213)**	(6,723)	**(12,213)**	(6,723)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

($ thousands)

	3 Months Ended Sept. 30, 2010	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Cash provided by (used in):				
Operating activities:				
Net earnings	**42,943**	44,696	**135,192**	109,150
Items not involving cash:				
Depreciation and amortization	**16,232**	16,965	**50,412**	56,607
Accretion on asset retirement obligations	**1,784**	2,186	**5,284**	6,358
Future income tax expense	**(1,900)**	2,428	**500**	4,943
Employee future benefits expense	**1,417**	1,623	**4,252**	4,895
Trust Unit based compensation expense (Note 7)	**92**	197	**322**	579
Other	**1,016**	25	**919**	70
Employee future benefits contributions	**(2,000)**	(2,100)	**(6,000)**	(7,520)
Changes in non-cash working capital	**6,129**	(3,807)	**10,272**	(22,471)
Cash flow from operating activities	**65,713**	62,213	**201,153**	152,611
Financing activities:				
Bank borrowings	**31,766**	7,357	**41,634**	168,683
Repayment of senior secured notes	**(1,873)**	(1,741)	**(5,517)**	(5,131)
Issue of senior debt				75,000
Debt repayment			**(100,000)**	(75,000)
Issue of Trust Units for cash		(16)		156,221
Share issue costs	**(104)**		**(104)**	
Issue of Trust Units on exercise of options (Note 7)	**8,654**	302	**25,253**	1,020
Issue of Trust Units under Distribution Reinvestment Plan (Note 7)		38,039	**55,898**	103,789
Distributions to Unitholders - current year	**(63,900)**	(59,858)	**(169,199)**	(150,701)
Distributions to Unitholders - prior year			**(20,617)**	(17,511)
Cash flow from financing activities	**(25,457)**	(15,917)	**(172,652)**	256,370
Investing activities:				
Capital expenditures	**(36,673)**	(23,680)	**(80,770)**	(90,828)
Acquisition of Cutbank assets		(858)		(297,164)
Changes in non-cash working capital	**2,716**	(8,767)	**364**	(30,499)
Cash flow from investing activities	**(33,957)**	(33,305)	**(80,406)**	(418,491)
Change in cash	**6,299**	12,991	**(51,905)**	(9,510)
Cash (bank indebtedness), beginning of period	**(4,277)**	(8,863)	**53,927**	13,638
Cash, end of period	**2,022**	4,128	**2,022**	4,128
Other cash disclosures:				
Interest on long-term debt paid	**(11,090)**	(12,665)	**(40,799)**	(32,455)
Interest capitalized	**(1,584)**	(216)	**(4,263)**	(745)

See accompanying notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Quarter ended September 30, 2010 and year ended December 31, 2009. Tabular amounts in thousands of dollars, except per Trust Unit amounts.

1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Pembina have been prepared by management in accordance with Canadian generally accepted accounting principles for non rate-regulated entities. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2009. The disclosure provided below is incremental to that included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Fund's consolidated financial statements and the notes for the year ended December 31, 2009. Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation.

Future Accounting Changes

International Financial Reporting Standards

The CICA Accounting Standards Board ("AcSB") confirmed in February 2008 that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective January 1, 2011. Pembina has developed and has implemented a conversion plan to complete the transition by January 1, 2011, including the preparation of required comparative information. As the impacts on Pembina's Consolidated Financial Statements are determined they are being disclosed in its MD&A.

2. BUSINESS SEGMENTS

Pembina 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.

The Conventional Pipelines business is a tariff-based operation consisting of pipelines and related facilities that deliver crude oil and natural gas liquids in Alberta and British Columbia.

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 producers under long-term cost-of-service arrangements.

Midstream & Marketing consists of Pembina's direct and indirect interest in a storage operation, its direct interest in terminals, 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 approximately 300 kilometres of gathering systems.

The financial results of the business segments are as follows:

	Three months ended September 30, 2010					
($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	64,381	29,292				93,673
Terminal, storage and hub services			162,945			162,945
Gas services				15,519		15,519
Revenue before expenses	64,381	29,292	162,945	15,519		272,137
Expenses:						
Operations	22,258	9,510	2,285	4,599		38,652
Product purchases			148,437			148,437
General and administrative	787	835	932	767	8,248	11,569
Depreciation and amortization	6,242	5,620	2,022	2,105	243	16,232
Accretion on asset retirement obligations	1,474	169		141		1,784
Other	73	(218)	(151)		108	(188)
	30,834	15,916	153,525	7,612	8,599	216,486
Earnings (loss) before interest and taxes	33,547	13,376	9,420	7,907	(8,599)	55,651
Property, plant and equipment[2]	739,179	812,129	206,389	285,915	8,166	2,051,778
Goodwill and other	194,370	28,300	113,129	22,107	19,546	377,452

(1) 11.4 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) Included in property, plant and equipment are assets under construction of $165.7 million, which includes $110.4 million for Nipisi and Mitsue Pipelines.

	Nine months ended September 30, 2010					
($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	193,071	87,614				280,685
Terminal, storage and hub services			632,054			632,054
Gas services				45,836		45,836
Revenue before expenses	193,071	87,614	632,054	45,836		958,575
Expenses:						
Operations	65,904	29,350	7,236	13,515		116,005
Product purchases			573,485			573,485
General and administrative	2,933	2,164	2,775	2,151	23,190	33,213
Depreciation and amortization	19,911	16,838	6,016	6,294	1,353	50,412
Accretion on asset retirement obligations	4,391	490		403		5,284
Other	(90)	(253)	187		22	(134)
	93,049	48,589	589,699	22,363	24,565	778,265
Earnings (loss) before interest and taxes	100,022	39,025	42,355	23,473	(24,565)	180,310
Property, plant and equipment[2]	739,179	812,129	206,389	285,915	8,166	2,051,778
Goodwill and other	194,370	28,300	113,129	22,107	19,546	377,452

(1) 10.8 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) Included in property, plant and equipment are assets under construction of $165.7 million, which includes $110.4 million for Nipisi and Mitsue Pipelines.

($ thousands)	Conventional Pipelines	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
	Three months ended September 30, 2009					
Revenue:						
Pipeline transportation	62,176	28,575				90,751
Terminal, storage and hub services			106,224			106,224
Gas services				14,883		14,883
Revenue before expenses	62,176	28,575	106,224	14,883		211,858
Expenses:						
Operations	23,962	8,467	2,517	4,604		39,550
Product purchases			80,835			80,835
General and administrative[1]	909	569	517	462	8,675	11,132
Depreciation and amortization	1,032	12,489	252	2,047	1,145	16,965
Accretion on asset retirement obligations	1,848	217		121		2,186
Other[1]	63	225	204		(155)	337
	27,814	21,967	84,325	7,234	9,665	151,005
Earnings (loss) before interest and taxes	34,362	6,608	21,899	7,649	(9,665)	60,853
Property, plant and equipment[2]	760,636	757,203	203,740	280,503	9,196	2,011,278
Goodwill and other	194,370	28,300	116,879	17,938	14,300	371,787

(1) General and administrative expenses and other expenses have been reclassified for comparative purposes.

(2) Included in property, plant and equipment are assets under construction for the Nipisi and Mitsue Pipelines of $19.7 million.

($ thousands)	Conventional Pipelines	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
	Nine months ended September 30, 2009					
Revenue:						
Pipeline transportation	192,021	85,837				277,858
Terminal, storage and hub services			258,241			258,241
Gas services				19,260		19,260
Revenue before expenses	192,021	85,837	258,241	19,260		555,359
Expenses:						
Operations	81,564	23,960	7,774	6,165		119,463
Product purchases			187,174			187,174
General and administrative[1]	3,114	1,893	1,759	463	27,229	34,458
Depreciation and amortization	22,869	23,049	6,229	2,729	1,731	56,607
Accretion on asset retirement obligations	5,547	651		160		6,358
Other[1]	(60)	225	68		(112)	121
	113,034	49,778	203,004	9,517	28,848	404,181
Earnings (loss) before interest and taxes	78,987	36,059	55,237	9,743	(28,848)	151,178
Property, plant and equipment[2]	760,636	757,203	203,740	280,503	9,196	2,011,278
Goodwill and other	194,370	28,300	116,879	17,938	14,300	371,787

(1) General and administrative expenses and other expenses have been reclassified for comparative purposes.

(2) Included in property, plant and equipment are assets under construction for the Nipisi and Mitsue Pipelines of $19.7 million.

3. PROPERTY, PLANT & EQUIPMENT

($ thousands)	**Sept. 30 2010 Cost[(1)]**	Dec. 31 2009 Cost	**Sept. 30 2010 Accumulated Depreciation**	Dec. 31 2009 Accumulated Depreciation	**Sept. 30 2010 Net**	Dec. 31 2009 Net
Conventional Pipelines	**1,351,026**	1,355,108	**(611,847)**	(598,906)	**739,179**	756,202
Oil Sands & Heavy Oil	**934,284**	909,028	**(122,155)**	(105,322)	**812,129**	803,706
Midstream & Marketing	**250,881**	238,323	**(44,492)**	(41,534)	**206,389**	196,789
Gas Services	**296,165**	285,281	**(10,250)**	(4,480)	**285,915**	280,801
Corporate	**11,320**	16,215	**(3,154)**	(7,796)	**8,166**	8,419
	2,843,675	2,803,955	**(791,898)**	(758,038)	**2,051,778**	2,045,917

(1) Included in the cost is Assets Under Construction of $165.7 million.

4. GOODWILL & OTHER

($ thousands)	Sept. 30, 2010 Cost	Sept. 30, 2010 Accumulated Amortization	**Sept. 30 2010 Net**	Dec. 31 2009 Net
Goodwill	287,670		287,670	287,670
Other intangibles	98,038	(27,802)	70,236	73,572
Pension asset	19,546		19,546	17,797
	405,254	(27,802)	377,452	379,039

5. FUTURE INCOME TAXES

On October 31, 2006, the Federal Government announced a proposed trust taxation of 31.5 percent, subsequently reduced to 29 percent, of distributions which may be effective January 31, 2011. The enactment of Bill C-52 relating to trust tax has no additional impact on the future income tax liability. Pembina has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability of $94.8 million and as the tax basis of Pembina's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature. In order to avoid the implementation of trust taxation, Pembina completed its previously announced corporate conversion on October 1, 2010. See Note 10, Subsequent Events.

6. ASSET RETIREMENT OBLIGATIONS

Pembina 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 2.7 percent inflation, based on the Alberta CPI inflation average) of $938 million (2009: $800 million). The new estimate includes a revision of the timing of the payments. The obligations are expected to be paid over the next 50 years with substantially all being paid between 37-42 years. Pembina 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.

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

($ thousands)	**Sept. 30 2010**	Dec. 31 2009
Obligations, beginning of period	**104,204**	84,158
Change in obligation estimate	**(27,923)**	13,410
Accretion expense	**5,284**	6,636
Obligations, end of period	**81,565**	104,204

7. TRUST UNITS

	Trust Units	Amount ($ thousands)
Balance, January 1, 2010	158,588,699	1,660,795
Exercise of Trust Unit options	1,682,022	25,253
Debenture conversions	846,920	10,134
Distribution Reinvestment Plan	3,354,936	55,898
Contributed surplus and other		218
Balance, September 30, 2010	**164,472,577**	**1,752,298**

8. EARNINGS PER TRUST UNIT

The following table summarizes the computation of net earnings per Trust Unit:

($ thousands)	**3 Months Ended Sept. 30, 2010**	3 Months Ended Sept. 30, 2009	**9 Months Ended Sept. 30, 2010**	9 Months Ended Sept. 30, 2009
Net Earnings				
Numerator for basic earnings per Trust Unit	**42,943**	44,696	**135,192**	109,150
Numerator for diluted earnings per Trust Unit	**43,337**	45,224	**136,495**	110,765
Denominator:				
Weighted average denominator for basic Trust Units	**163,997**	154,404	**163,079**	146,144
Dilutive instruments				
Debentures	**2,396**	3,289	**2,785**	3,359
Employee options	**496**	133	**495**	70
Denominator for diluted earnings per Trust Unit	**166,889**	157,826	**166,360**	149,573
Basic earnings per Trust Unit (dollars)	**0.26**	0.29	**0.83**	0.75
Diluted earnings per Trust Unit (dollars)	**0.26**	0.29	**0.82**	0.74

9. FINANCIAL RISK MANAGEMENT & FINANCIAL INSTRUMENTS

Liquidity and Capital Resources

($ thousands)	**Sept. 30 2010**	Dec. 31 2009
Variable rate debt		
Bank debt	**297,505**	359,066
Variable rate debt swapped to fixed	**(200,000)**	(200,000)
Total variable rate debt outstanding (average rate of 3.00%)	**97,505**	159,066
Fixed rate debt		
Senior unsecured notes	**642,000**	642,000
Senior unsecured term debt	**75,000**	75,000
Senior secured notes	**67,865**	73,382
Variable rate debt swapped to fixed	**200,000**	200,000
Total fixed rate debt outstanding (average rate of 5.66%)	**984,865**	990,382
Convertible debentures	**26,506**	36,640
Total debt and debentures outstanding	**1,108,876**	1,186,088
Cash and unutilized debt facilities	**304,517**	394,861

Pembina's credit facilities at September 30, 2010 consisted of an unsecured $500 million revolving credit facility due July 2012 and an unsecured $50 million non-revolving credit facility due December 2010 (in May 2010, Pembina reduced the unsecured non-revolving credit facility when it paid $100 million towards the debt). In addition, Pembina has an operating facility of $50 million, which has been extended to July 2011.

All borrowings bear interest at prime lending rates plus 2.75 percent or based on 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 September 30, 2010, Pembina had approximately $297.5 million drawn on bank debt (including $7.4 million in letters of credit) leaving $304.5 million of cash and unutilized debt facilities (cash as at September 30, 2010: $2 million) on the $600 million of established bank facilities. At September 30, 2010, Pembina was exposed to changes in interest rates on $97.5 million of bank borrowings. Pembina 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 $15.5 million unrealized loss as at September 30, 2010 and are for terms of five to ten years. Including the interest swaps, interest rates on $984.9 million in senior secured and unsecured notes have been fixed, leaving roughly 9 percent of Pembina's outstanding debt exposed to interest rate fluctuations.

To provide cost certainty and stabilize tolls for customers, Pembina has hedged 16 megawatts ("MW") of power at an average price of $46.50 per megawatt hour ("MWh") through the end of 2010. For 2011, Pembina has hedged 15 MW at an average price of $45.65 per MWh. For 2012, Pembina has hedged 5 MW at an average price of $47.75 per MWh. For 2011 to 2015, Pembina has hedged 5 MW at an average price of $54.50 per MWh. The fair value of these contracts at September 30, 2010 was an unrealized loss of $0.8 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 are used. Credit risk has been taken into consideration when calculating the fair value of derivatives. Accounts payable and accrued liabilities, distributions 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:

($ thousands)	**September 30, 2010**		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt				
Senior secured notes	**67,865**	**77,631**	73,382	86,169
Senior unsecured notes	**717,000**	**816,637**	717,000	742,946
Convertible debenture	**26,506**	**45,251**	36,640	53,585

10. Subsequent Event Note

On October 1, 2010, Pembina Pipeline Corporation completed a Plan of Arrangement under the *Business Corporations Act* (Alberta) pursuant to which Pembina Pipeline Income Fund (the "Fund") converted to a dividend-paying corporate entity carrying on business as Pembina Pipeline Corporation ("PPC").

PPC's common shares and convertible debentures commenced trading on the Toronto Stock Exchange ("TSX") on Tuesday, October 5, 2010 under the symbols "PPL" and "PPL.DB.B", respectively. The Fund's Trust Units and convertible debentures (TSX: PIF.UN, PIF.DB.B) were de-listed by the TSX that same day.

Under the Plan of Arrangement, investors received one common share in PPC in exchange for each trust unit held in the Fund. Convertible debentures of the Fund have become direct obligations of PPC. As such, holders of the outstanding series of Fund convertible debentures, namely the 7.35 percent convertible unsecured subordinated debentures due December 31, 2010, are entitled to receive common shares in PPC on the same basis they were entitled to receive Trust Units of the Fund prior to the completion of the Plan of Arrangement. This is expected to be a tax-deferred reorganization; however, investors should consult with financial advisors regarding potential tax consequences of the exchange. Pursuant to the Plan of Arrangement, all outstanding securities of the Fund have been dissolved.

The decision to convert to a corporate entity resulted from a Government of Canada decision in 2006 that introduced legislation designed to change the taxation of income trusts. By converting to a corporation, Pembina will avoid the imposition of specified-investment flow through ("SIFT") tax applicable beginning in 2011. Pembina expects conversion may provide greater access to capital markets, improved liquidity and greater flexibility to pursue growth and expansion.

CORPORATE INFORMATION

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STOCK EXCHANGE

Pembina Pipeline Corporation
Common shares listed on the TSX
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7.35% convertible debentures symbol PPL.DB.B

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