PEMBINA

PEMBINA PIPELINE CORPORATION

2011 INTERIM REPORT Q1

Pembina Pipeline Corporation 2011 first quarter results
Growth plan reaches major milestones

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 19 for more information. This report also refers to financial measures that are not defined by International Financial Reporting Standards ("IFRS"), which is now considered part of Canadian Generally Accepted Accounting Principles ("GAAP"). For more information about these "non-IFRS" or "non-GAAP" measures please see page 18.

Pembina Pipeline Corporation ("Pembina" or "the Corporation") achieved strong financial performance during the first quarter of 2011, realizing cash flow from operating activities of $74.5 million ($0.45 per share), compared to $66.5 million ($0.41 per share) during the same time period the year before. This increase was driven by solid operating results from each of its four business units. Adjusted earnings before tax for the period were $56.8 million ($0.34 per share) compared to $50.3 million ($0.31 per share) during the first quarter of 2010.

In addition, Pembina made significant progress on its growth plans during the first quarter of 2011, nearing completion on projects that are expected to boost earnings and cash flow from operating activities mid-year including the Corporation's new Nipisi heavy oil and Mitsue diluent pipelines.

"We continue to see strong financial and operational results from our existing businesses, and expect that with the completion of our growth projects, these results will continue to improve," said Bob Michaleski, President and Chief Executive Officer. "Pembina is well-positioned to capitalize on the tremendous growth opportunities we have in front of us as we offer additional capacity and enhanced services to our customers in key producing areas of Alberta."

Revenue, net of product purchases, during the first quarter of 2011 was $140.6 million, compared to $125.9 million during the same period in 2010. The increase in revenue was driven by strong performance in each of Pembina's four business units, particularly Midstream & Marketing, which realized a $7.2 million quarter-over-quarter gain in revenue, net of product purchases. Operating expenses were $43.2 million during the first quarter of 2011, compared to $36.3 million during the same period in 2010, primarily due to increased integrity and maintenance work in Conventional Pipelines and higher labour and power costs. Operating margin totaled $97.4 million during the first quarter of 2011, compared to $89.6 million during the first quarter of 2010.

Dividends were $65.1 million during the first quarter of 2011, representing a quarterly payment of $0.39 per share ($0.13 per share monthly), compared to $62.8 million in the first quarter of 2010 (no change in per share payments).

Growth Strategy Update

Nipisi & Mitsue Pipeline Projects

In the spring of 2008, Pembina embarked on two new complementary growth projects in northwestern Alberta: the Nipisi heavy oil and Mitsue diluent pipelines. Together, these two pipelines are expected to expand Pembina's operating system in the vicinity of Whitecourt, Swan Hills and Slave Lake and north to the existing Nipisi storage terminal.

The Mitsue Pipeline, which is essentially complete and on which Pembina began commissioning subsequent to the first quarter of 2011, is ahead of schedule. This new diluent delivery service has a design capacity of 22,000 barrels per day ("bpd") and consists of a combination of 135 kilometres ("km") of new and 120 km of existing infrastructure. When complete, this pipeline will transport condensate from Pembina's Peace Pipeline at Whitecourt in northwestern Alberta to heavy oil producers operating north of the Town of Slave Lake, Alberta. The condensate will be used by area customers to dilute heavy oil prior to transport.

The Nipisi Pipeline, which is expected to come into service on schedule in the third quarter of 2011 with a capacity of 100,000 bpd, is a 190 km heavy oil pipeline that will transport diluted heavy oil from north of Slave Lake to Pembina's existing pipeline south of Swan Hills and on to Edmonton, Alberta for further transport or processing. To date, the Nipisi Pipeline is approximately 90 percent complete with only minor work remaining at the pump stations.

Both projects are on track to meet Pembina's internal budget projections, which estimate the total cost of the Nipisi and Mitsue Pipeline projects to be approximately $440 million with associated estimated annual operating margin of approximately $45 million (see "Forward-Looking Statements & Information" on page 19).

The expected return contribution reflects the base case for both pipeline projects. The Nipisi Pipeline has the potential to be expanded to 200,000 bpd from its current design rate of 100,000 bpd and the Mitsue Pipeline could be expanded to 45,000 bpd from its current design rate of 22,000 bpd. Expansion plans would require regulatory approval, which Pembina will pursue once customer support has been solidified.

"The completion of our Nipisi and Mitsue Pipelines represents a major milestone in Pembina's growth strategy," said Mr. Michaleski. "We will bring much-needed transport capacity to our customers in a region that is undergoing considerable development. And, by using existing infrastructure wherever possible, we were able to achieve this milestone in a reasonable timeframe, with limited environmental impact, and at a lower capital cost."

Enhanced Natural Gas Liquids ("NGL") Extraction

Pembina is well into the construction of a new 205 million cubic feet per day ("mmcf/d") ethane extraction facility and the related 10 km pipeline to deliver an ethane mix stream to Pembina's Peace Pipeline. The new plant is expected to cost $75 million and is on schedule for commissioning and start-up in October 2011. The plant is being built on Pembina's existing Musreau Gas Plant site and the pipeline is using existing pipeline corridors and infrastructure where possible, reducing the need to disturb additional land for the project. Pembina has contracted approximately 80 percent of the planned capacity at the facility and expects to contract the facility's remaining capacity under terms designed to provide Pembina with cash flow certainty. Once on stream, the ethane extraction facility is expected to provide Pembina with approximately $12 to $15 million of additional operating margin annually, as well as up to 14,000 bpd of liquids which Pembina will transport on its Conventional Pipelines and for which it will receive additional toll revenue.

"The low natural gas price environment has put a renewed spotlight on the value of NGL," said Mr. Michaleski. "Producers are benefitting from new technologies that are driving production costs down and recovery rates up, increasing the need for gas handling, processing and transportation capacity. With infrastructure in close proximity to these producing regions, our integrated business model means that Pembina is well positioned to take advantage of these opportunities."

Cardium Development

From March 2010 to March 2011, development in the Cardium formation has contributed to increased average daily throughput on the Drayton Valley Pipeline and Peace Pipeline by more than 20,000 bpd each. Subject to receiving regulatory approval, Pembina plans to spend approximately $40 million prior to mid-2012 on projects to strengthen the transportation service options it provides producers developing the Cardium oil formation located in west central Alberta. This includes an investment of approximately $23 million to increase the capacity of an existing 42 km section of pipeline that transports crude oil between Willesden Green and Buck Creek, Alberta and is expected to add an incremental 25,000 bpd to the current capacity of 12,000 bpd. 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. To date this year, Pembina has spent approximately $15 million of the $40 million on the installation of 10 km of 10 inch pipeline in the west Drayton Valley area, the purchase and coating of 42 km of 8 inch pipe for the Willesden Green expansion project, pump station upgrades and producer facility connections.

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 area of the Cardium formation since the 1950s and its Drayton Valley Pipeline system, much of its Midstream & Marketing business, and segments of its Peace Pipeline System overlay this formation. The Corporation is named after the Pembina Oil Field. Discovered in 1953, the Pembina field is, according to various industry and government sources, estimated to contain up to 10 billion barrels of oil. New horizontal drilling and multi-stage fracturing technology has the potential to cost-effectively unlock a substantial amount of incremental oil production with third-party 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 Mr. Michaleski. "We are investing in our strategically located assets to ensure we have adequate capacity on our pipelines and that they meet our integrity standards. Our first priority is safe, reliable, long-term operations."

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial and operating results of Pembina Pipeline Corporation is dated May 25, 2011 and is supplementary to, and should be read in conjunction with, Pembina's condensed consolidated interim financial statements for the period ended March 31, 2011 ("Interim Consolidated Financial Statements"), as well as the consolidated annual financial statements for the year ended December 31, 2010 (the "Consolidated Financial Statements").

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

This MD&A contains forward-looking statements and information and non-GAAP measures. See "Forward-Looking Statements & Information" on page 19 and "Non-GAAP Measures" on page 18.

IFRS Transition

The Canadian Institute of Chartered Accountants ("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 ("Transition Date"). Accordingly, Pembina's Interim Consolidated Financial Statements for the quarter ending March 31, 2011, including required comparative information, have been prepared in accordance with IAS 34 – *Interim Financial Reporting* and IFRS 1 – *First-time Adoption of IFRS* ("IFRS 1"), which sets out the requirements for the first time adoption of IFRS and Pembina has adopted IFRS as its primary accounting principles. Previously, Pembina prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") that existed prior to the incorporation of IFRS into the CICA Handbook. Unless otherwise noted, comparative information has been restated for comparative purposes in accordance with IFRS.

Pembina has, from the Transition Date, reconciled its primary IFRS financial statements to Canadian GAAP, representing a change from its current full Canadian GAAP reporting. Detailed reconciliations of the changes in equity and comprehensive income resulting from the adoption of IFRS are presented in Note 12 of the accompanying Interim Consolidated Financial Statements. Financial measures reported in this MD&A have been restated to reflect the transition to IFRS for all periods after the Transition Date. The transition to IFRS has not had a material impact on Pembina's operations, strategic decisions, cash flow and capital expenditures.

The interim financial statements do not contain all disclosures required for annual financial statements, and accordingly, should be read in conjunction with Pembina's Consolidated Financial Statements and the notes thereto for the year ended December 31, 2010.

Pembina Pipeline Corporation

From September 4, 1997 to September 30, 2010, Pembina was wholly-owned by 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 (the "Conversion"). Pursuant to the Plan of Arrangement, holders of trust units received one common share of Pembina Pipeline Corporation for each trust unit held. This report reflects the financial and operating performance for the three months ending March 31, 2011, and as such references made in this document primarily refer to the Corporation, whereas comparative financial and operating performance measures primarily refer to the Fund. The Fund's trust units and convertible debentures were previously traded on the Toronto Stock Exchange ("TSX") under the symbols PIF.UN and PIF.DB.B, respectively.

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

Strategy

Pembina's goal is to provide highly competitive and reliable returns to investors through monthly dividends while enhancing the long-term value of its shares. To achieve this, 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 natural gas liquids ("NGL") transportation systems, and gas gathering and processing infrastructure – which allow for expansion, vertical integration and accretive growth.
- Implement growth and conduct operations in a safe and environmentally responsible manner. Growth is expected to occur through expansion of existing businesses, acquisitions and the development of new services. Pembina's investment criteria include pursuing projects or assets that are expected to generate increased cash flow per share and capture long-life, economic hydrocarbon reserves.
- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

Pembina's business is structured in four units: Conventional Pipelines, Oil Sands & Heavy Oil, Midstream & Marketing and Gas Services, which are described in their respective sections of this MD&A.

Financial & Operating Overview

(unaudited)

($ millions, except where noted)	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010
Revenue	**394.3**	289.0
Operations	**43.2**	36.3
Product purchases	**253.7**	163.1
Operating margin[1]	**97.4**	89.6
Depreciation and amortization included in operations	**14.9**	15.5
Gross profit	**82.5**	74.1
Deduct/(add)		
General and administrative expenses	**14.7**	9.0
Net finance costs	**14.0**	17.7
Share of profit of investments in equity accounted investee, net of tax	**(2.2)**	(2.2)
Income tax expense (reduction)	**13.5**	(2.6)
Earnings for the period	**42.5**	52.2
Earnings per share – basic (dollars)	**0.25**	0.32
EBITDA[1]	**87.2**	83.5
Cash flow from operating activities	**74.5**	66.5
Dividends	**65.1**	62.8
Dividends per share (dollars)	**0.39**	0.39
Capital expenditures	**223.3**	20.5
Total enterprise value[1]	**5,522.7**	3,983.3
Total assets	**3,153.3**	2,610.2
Average throughput – conventional (thousands of bpd)	**390.3**	389.3
Contracted capacity – oil sands (thousands of bpd)	**775.0**	775.0
Average processing volume – gas services (mmcf/d net to Pembina)	**228.3**	216.9

(1) Refer to "Non-GAAP Measures" on page 18.

Revenue during the first quarter of 2011 was $394.3 million ($140.6 million net of product purchases), compared to $289 million ($125.8 million net of product purchases) during the same period in 2010. The increase in revenue was driven by strong performance in each of Pembina's four business units, particularly Midstream & Marketing, which realized a $7.2 million quarter-over-quarter gain in operating margin.

Operating expenses were $43.2 million during the first quarter of 2011, compared to $36.3 million during the same period in 2010. This increase is primarily due to increases in integrity and maintenance work, labour and power costs. Operating margin was $97.4 million during the first quarter of 2011, compared to $89.6 million during the same period in 2010. Steady performance by all business units, offset by higher operating expenses, resulted in the increase in operating margin.

General and administrative expenses of $14.7 million were incurred during the first quarter of 2011 compared to $9 million during the first quarter of 2010. The primary driver of the increase was the timing of provisions made for incentives and an increase in the share price used to value those amounts. The increase also reflects higher salary and benefits expense due to an increase in the overall number of employees.

Depreciation and amortization (operations) was $14.9 million during the first quarter of 2011, compared to $15.5 million during the same period in 2010. This decrease is mainly the result of a revision of estimates made for 2011.

The positive variances in revenue and operating margin contributed to an increase in gross profit, which was $82.5 million during the first quarter of 2011, compared to $74.1 million during the same time period in 2010.

Adjusted earnings before tax for the period were $56.8 million ($0.34 per share) compared to $50.3 million ($0.31 per share) during the first quarter of 2010. Earnings for the period after tax and including derivative financial instruments were $42.5 million ($0.25 per share) in the first quarter of 2011, compared to $52.2 million ($0.32 per share) during the first quarter of 2010. The quarter-over-quarter decrease in earnings is primarily due to increases in income tax expense of $16.1 million offset by declines in net finance costs of $3.8 million and increase in results from operating activities of $2.7 million.

Cash flow from operating activities during the first quarter of 2011 was $74.5 million ($0.45 per share), compared to $66.5 million ($0.41 per share) during the same period the year before.

Operating Results

(unaudited)

	3 Months Ended March 31, 2011		3 Months Ended March 31, 2010	
($ millions)	**Net Revenue[2]**	**Operating Margin[2]**	Net Revenue[2]	Operating Margin[2]
Conventional Pipelines	**69.2**	**44.0**	64.7	43.1
Oil Sands & Heavy Oil	**30.6**	**19.3**	28.8	19.5
Midstream & Marketing [1]	**25.8**	**23.7**	17.8	16.5
Gas Services	**15.0**	**10.3**	14.5	10.5
Total	**140.6**	**97.3**	125.8	89.6

(1) Midstream & Marketing revenue is net of $253.7 million in product purchase expense for three months ended March 31, 2011 (three months ended March 31, 2010: $163.1 million).

(2) Refer to "Non-GAAP Measures" on page 18.

Conventional Pipelines

($ millions, except where noted)	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010
Revenue	**69.2**	64.7
Operations	**25.2**	21.6
Operating margin(1)	**44.0**	43.1
Depreciation and amortization included in operations	**9.7**	7.2
Gross profit	**34.3**	35.9
Capital expenditures	**16.7**	3.2
Average throughput (thousands bpd)	**390.3**	389.3
Operating expenses ($/bbl)	**0.69**	0.60
Average revenue ($/bbl)	**1.85**	1.72

(1) Refer to "Non-GAAP Measures" on page 18.

Business Overview

Pembina's Conventional Pipelines form a 7,500 kilometre ("km") network that extends across much of Alberta and British Columbia, transporting approximately 50 percent of Alberta's conventional crude oil production and approximately 20 percent of the NGL produced in western Canada. The primary objective of the Conventional Pipelines business is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue. Operating margins are maintained and/or grown through incremental volume capture, system expansion, revenue management and operating expense discipline.

Q1 Operational Performance: Throughput

During the first quarter of 2011, Conventional Pipelines throughput averaged 390,300 barrels per day ("bpd"), consisting of an average of 290,200 bpd of crude oil and 100,100 bpd of NGL. The largest contribution to throughput was derived from Alberta-based systems, which transported an average of 372,180 bpd during the quarter. During the same three-month period in 2010, Conventional Pipelines throughput was approximately the same with average throughput of 389,300 bpd. Of that total, Alberta pipelines transported an average of 370,200 bpd.

Pembina's Conventional Pipelines business is well-maintained and strategically located near sources of new volume. Compared to the fourth quarter of 2010, when average throughput was 375,000 bpd, Conventional Pipelines throughputs increased an average of 15,300 bpd to 390,300 bpd. Contributing to this increase was higher production by producers in the Cardium and other Deep Basin Cretaceous formations. March 2011 exit volumes on the Drayton Valley Pipeline system were approximately 105,000 bpd and over 185,000 bpd on the Peace Pipeline system compared to approximately 85,000 bpd and 165,000 bpd, respectively, during the same period in 2010.

Q1 Financial Performance

Conventional Pipelines generated revenue of $69.2 million during the first quarter of 2011, compared to $64.7 million during the same time period in 2010. The quarterly increase was driven by higher volumes on the majority of Pembina's largest systems.

During the quarter, operating expenses were $25.2 million, compared to the first quarter of 2010 when operating expenses totaled $21.6 million. This increase is the result of seasonal integrity work conducted on segments of the Conventional Pipelines to help ensure continuing pipeline integrity, safety and reliability.

Operating margin during the first quarter of 2011 was $44 million, slightly higher than the first quarter of 2010.

For the three months ended March 31, 2011, gross profit was $34.3 million, compared to $35.9 million during the same period in 2010. The decrease was due to an increase in depreciation and amortization expense of $2.5 million partly offset by an increase in operating margin of $0.9 million.

As of the end of the first quarter of 2011, capital expenditures within the Conventional Pipelines business totaled $16.7 million, compared to $3.2 million during the same time period in 2010. The majority of this spending relates to expansion of certain Conventional Pipelines. For more information, see page 15.

Oil Sands & Heavy Oil

($ millions, except where noted)	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010
Revenue	**30.6**	28.8
Operations	**11.3**	9.3
Operating margin(1)	**19.3**	19.5
Depreciation and amortization included in operations	**1.9**	5.6
Gross profit	**17.4**	13.9
Capital expenditures	**99.8**	10.8
Capacity under contract (thousands of bpd)	**775.0**	775.0

(1) Refer to "Non-GAAP Measures" on page 18.

Business Overview

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 km of pipeline with 775,000 bpd of transportation capacity and about 30 percent of the total take-away capacity from the Athabasca oil sands region. These assets operate under long-term, extendible contracts that provide for the flow-through of operating expenses to customers. As a result, operating margin 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 Pelican Lake and Peace River heavy oil regions of Alberta. See page 11 for further details

Q1 Performance

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. Operating margin generated by the Syncrude Pipeline during the first quarter of 2011 was $6.5 million compared to $6.6 million during the first quarter 2010.

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. Operating margin generated by the Cheecham Lateral remained consistent at $1.1 million during the first quarter of 2011, compared to the first quarter of 2010.

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. Operating margin generated by the Horizon Pipeline was $11.4 million during the first quarter of 2011, the same as generated during the first quarter of 2010.

Operating expenses in Oil Sands & Heavy Oil were $11.3 million during the first quarter of 2011, compared to $9.3 million during the first quarter of 2010. This increase is primarily due to higher power costs which flow through to the customer.

For the three months ended March 31, 2011, gross profit was $17.4 million, compared to $13.9 million during the same period in 2010. The decrease was primarily due to a change in depreciation and amortization expense to reflect reserve life rather than the terms of the initial contracts for each of the assets.

As of March 31, 2011, capital expenditures within Oil Sands & Heavy Oil totaled $99.8 million, compared to $10.8 million during the same time period in 2010. The majority of the 2011 investment – $96.9 million – constitutes spending to progress the Nipisi and Mitsue Pipeline projects. For more information, see page 15.

Midstream & Marketing

($ millions)	3 Months Ended March 31, 2011	3 Months Ended March 31, 2010
Revenue	**279.5**	180.9
Operations	**2.1**	1.3
Product purchases	**253.7**	163.1
Operating margin(1)	**23.7**	16.5
Depreciation and amortization included in operations	**0.9**	0.6
Gross profit	**22.8**	15.9
Share of profit of investment in equity accounted investees	**2.2**	2.2
Capital expenditures	**90.3**	1.6

(1) Refer to "Non-GAAP Measures" on page 18.

Business Overview

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

Q1 Performance

Midstream & Marketing recorded revenue net of product purchases of $25.8 million during the first quarter of 2011, compared to $17.8 million during the first quarter of 2010. The increase in revenue was primarily due increased volumes and activity on the Peace Pipeline and Drayton Valley Pipeline systems, new service offerings associated with the Edmonton terminal, stronger commodity prices and wider margins.

Operating expenses were $2.1 million, compared to $1.3 million in the first quarter of 2010 due to increased expenses at truck terminals and the recently acquired terminalling and storage facility near Edmonton, Alberta.

Operating margin was $23.7 million during the first quarter of 2011, compared to $16.5 million during the first quarter of 2010 primarily due to the same factors that contributed to the increase in revenue, net of product purchases, as discussed above.

For the three months ended March 31, 2011, gross profit was $22.8 million, compared to $15.9 million during the same period in 2010 resulting from the higher operating margin of $7.2 million.

As of the end of the first quarter of 2011, capital expenditures within Midstream & Marketing totaled $90.3 million, compared to $1.6 million during the first three months of 2010. The bulk of the spending relates to the acquisition of the terminalling and storage facility near Edmonton, Alberta and the acquisition of linefill for the Peace Pipeline system. For more information, see page 15.

Gas Services

($ millions, except where noted)	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010
Revenue	**15.0**	14.5
Operations	**4.7**	4.0
Operating margin(1)	**10.3**	10.5
Depreciation and amortization included in operations	**2.3**	2.1
Gross profit	**8.0**	8.4
Capital expenditures	**15.6**	4.7
Average processing volume (mmcf/d net to Pembina)	**228.3**	216.9

(1) Refer to "Non-GAAP Measures" on page 18.

Business Overview

Pembina's operations also include natural gas transportation and processing. Located approximately 100 km south of Grande Prairie, Alberta, Pembina's Gas Services assets - the Cutbank Complex - includes 300 km of gathering lines and ownership in three sweet gas processing plants with 360 million cubic feet per day ("mmcf/d") of processing capacity (305 mmcf/d is net to Pembina). The Cutbank Complex is connected to Pembina's Peace Pipeline system and serves an active exploration and production area in the Western Canadian Sedimentary Basin ("WCSB").

Q1 Performance

Gas Services recorded revenue of $15 million during the first quarter of 2011 compared to $14.5 million during the same time period in 2010. This increase primarily reflects higher processing volume at the Cutbank Complex. Average processing volume, net to Pembina, was 228.3 mmcf/d during the first quarter of 2011, compared to 216.9 mmcf/d during the first quarter of 2010.

During the first quarter of 2011, operating expenses were $4.7 million, a slight increase from the first quarter of 2010. Gas Services contributed $10.3 million in operating margin during the first quarter of 2011, slightly lower than the $10.5 million generated in the first quarter of 2010.

For the three months ended March 31, 2011, gross profit was $8 million compared to $8.4 million during the same period in 2010.

As of the end of the first quarter of 2011, capital expenditures within Gas Services totaled $15.6 million compared to $4.7 million during the first three months of 2010 as a result of spending to progress the enhanced NGL extraction facility at the Cutbank Complex. For more information, see page 15.

Business Environment

The benchmark West Texas Intermediate ("WTI") price increased from an average spot price of U.S. $78.88 per barrel during the first quarter of 2010 to an average spot price of U.S. $94.60 per barrel during the first quarter of 2011. Geopolitical events around the world, especially in and around major oil producing nations, are thought to have had a contributing role in higher WTI prices this quarter. In the first quarter of 2011, benchmark New York Mercantile Exchange ("NYMEX") natural gas prices were lower than the same period in 2010, averaging U.S. $4.11 per million British thermal unit ("mmbtu") compared to U.S. $5.30 per mmbtu. The lower natural gas prices continue to reflect the impact of strong natural gas supply growth across North America.

The first quarter of 2011 saw relatively strong oilfield activity levels with the Canadian Association of Drilling Contractors reporting an average utilization for the first three months of 2011 of 68 percent, reflecting an improvement over the same quarter last year which saw average utilization rates of 54 percent. This increased drilling activity in western Canada is largely geared towards oil and liquids-rich natural gas plays, with particular emphasis on horizontal and other unconventional drilling and completion techniques.

The outlook for the energy infrastructure sector in the WCSB remains positive for all of Pembina's business units. The combination of relatively high oil prices and low natural gas prices has benefitted Pembina throughout the first quarter of 2011 by increasing throughput on various liquids pipelines as well as supporting projects that capture inherent liquids value, a trend that Pembina expects to provide future opportunities for growth. Major Canadian oil and gas producers have publicly indicated their intention to pursue such plays in western Canada.

New Developments & Outlook

Nipisi & Mitsue Pipeline Projects

In the spring of 2008, Pembina embarked on two new complementary growth projects in northwestern Alberta: the Nipisi heavy oil and Mitsue diluent pipelines. Together, these two pipelines are expected to expand Pembina's operating system in the vicinity of Whitecourt, Swan Hills and Slave Lake and north to the existing Nipisi storage terminal.

The Mitsue Pipeline, which is essentially complete and on which Pembina began commissioning subsequent to the first quarter of 2011, is ahead of schedule. This new diluent delivery service has a design capacity of 22,000 bpd and consists of a combination of 135 km of new and 120 km of existing infrastructure. When complete, this pipeline will transport condensate from Pembina's Peace Pipeline at Whitecourt in northwestern Alberta to heavy oil producers operating north of the Town of Slave Lake, Alberta. The condensate will be used by area customers to dilute heavy oil prior to transport.

The Nipisi Pipeline, which is expected to come into service on schedule in the third quarter of 2011 with a capacity of 100,000 bpd, is a 190 km heavy oil pipeline that will transport diluted heavy oil from north of Slave Lake to Pembina's existing pipeline south of Swan Hills and on to Edmonton, Alberta for further transport or processing. To date, the Nipisi Pipeline is approximately 90 percent complete with only minor work remaining at the pump stations.

Both projects are on track to meet Pembina's internal budget projections, which estimate the total cost of the Nipisi and Mitsue Pipeline projects to be approximately $440 million with associated estimated annual operating margin of approximately $45 million (see "Forward-Looking Statements & Information" on page 19).

The expected return contribution reflects the base case for both pipeline projects. The Nipisi Pipeline has the potential to be expanded to 200,000 bpd from its current design rate of 100,000 bpd and the Mitsue Pipeline could be expanded to 45,000 bpd from its current design rate of 22,000 bpd. Expansion plans would require regulatory approval, which Pembina will pursue once customer support has been solidified.

Enhanced NGL Extraction

Pembina is well into the construction of a new 205 mmcf/d ethane extraction facility and the related 10 km pipeline to deliver an ethane mix stream to Pembina's Peace Pipeline. The new plant is expected to cost $75 million and is on schedule for commissioning and start-up in October 2011. The plant is being built on Pembina's existing Musreau Gas Plant site and the pipeline is using existing pipeline corridors and infrastructure where possible, reducing the need to disturb additional land for the project. Pembina has contracted approximately 80 percent of the planned capacity at the facility and expects to contract the facility's remaining capacity under terms designed to provide Pembina with cash flow certainty. Once on stream, the ethane extraction facility is expected to provide Pembina with approximately $12 to $15 million of additional operating margin annually, as well as up to 14,000 bpd of liquids which Pembina will transport on its Conventional Pipelines and for which it will receive additional toll revenue.

Emerging Resource Developments

As oil and gas producers continue to take advantage of promising technologies and commodity prices, a number of transportation opportunities exist for Pembina throughout Alberta and British Columbia. Of particular interest are plays that were once considered mature or unviable, which are now being rejuvenated. New gas volumes combined with the higher value of liquids embedded in the gas has created interest in new and upgraded gas plants (with enhanced liquids extraction capacity) and ethane plus (C2+) transportation opportunities. Certain of these developments are discussed in more detail below.

The Alberta Deep Basin

Pembina recently executed an agreement to extend the Peace Pipeline system south into the greater Edson area by re-commissioning one of its previously deactivated pipelines to provide liquids transportation options for producers exploiting the Deep Basin Cretaceous formations. Although these are predominately gas plays, the hydrocarbon liquids content is a significant driver for activity in this region.

Cardium

From March 2010 to March 2011, development in the Cardium formation has contributed to increased average daily throughput on Pembina's Drayton Valley Pipeline and Peace Pipeline by more than 20,000 bpd each. Subject to receiving regulatory approval, Pembina plans to spend approximately $40 million prior to mid-2012 on projects to strengthen the transportation service options it provides producers developing the Cardium oil formation located in west central Alberta. This includes an investment of approximately $23 million to increase the capacity of an existing 42 km section of pipeline that transports crude oil between Willesden Green and Buck Creek, Alberta and is expected to add an incremental 25,000 bpd to the current capacity of 12,000 bpd. 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. To date this year, Pembina spent approximately $15 million of the $40 million on the installation of 10 km of 10 inch pipeline in the west Drayton Valley area, the purchase and coating of 42 km of 8 inch pipe for the Willesden Green expansion project, pump station upgrades and producer facility connections.

Midstream Facility Acquisition and the Establishment of the Pembina Nexus Terminal

In early 2011, Pembina acquired terminalling and storage facilities including more than 300,000 barrels of existing storage capacity and sufficient bare land to develop and significantly expand capacity as customer demand grows. Located near Edmonton, Alberta and interconnected via pipelines to other Pembina infrastructure, refineries and downstream terminals, this $57 million acquisition will allow Pembina to create tailored products and services for Pembina's customers, facilitate growth for its other business units, and forms an important part of Pembina's growth strategy in the Midstream & Marketing business. Incremental storage capacity increases Pembina's ability to respond to changing conditions in the marketplace: products can be stored when the market is in a surplus state and drawn down when the situation eases; customer requests for storage of products can be accommodated; and downstream transportation interruptions can be buffered so upstream tariff revenues are maintained. As a result of Pembina's integrated approach, this latest strategic acquisition also allows the Corporation to benefit from the synergies that may exist across its business units. For example, the acquired assets will form an integral part of the Pembina Nexus Terminal ("PNT"), which has been designed to connect key infrastructure in the Edmonton - Fort Saskatchewan – Namao, Alberta area. Pembina envisions that PNT will act, among other things, as a key distribution facility to serve the growing demand for diluent by customers in the oil sands and heavy oil sector in both the Fort McMurray and Peace River, Alberta regions. Pembina is already developing plans to increase the interconnectivity of the terminal, aimed at providing value to both upstream and downstream customers. This latter expansion will occur over time as maket demand drives growth, and will require future capital expenditures.

Fort Saskatchewan Ethylene Storage Facility

Three of the five ethylene storage caverns in the Storage Facility are currently out of service and it is unlikely those caverns will be put back into ethylene storage service, however alternative uses are being pursued. Pembina has entered into agreements to wash a new ethylene storage cavern and does not expect a material reduction in revenue.

Dividends

Based on certain assumptions, and subject to compliance with applicable law, Pembina expects to maintain its dividend of $1.56 per share per year (payable at $0.13 per share per month) through 2013 (see "Forward-Looking Statements & Information" on page 19). 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.

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 but investors are encouraged to seek independent tax advice.

NON-OPERATING EXPENSES AND OTHER INCOME

General & Administrative ("G&A")

G&A expenses of $14.7 million were incurred during the first quarter of 2011 compared to $9 million during the first quarter of 2010. The primary driver of the increase was the timing of provisions made for incentives and an increase in the share price used to value those amounts. The increase also reflects higher salary and benefits expense due to an increase in the overall number of employees.

Depreciation & Amortization

Depreciation and amortization was $15.1 million during the first quarter 2011, compared to $16.2 million during the same period of 2010. The net decrease reflects the change in estimated useful lives of certain Oil Sands & Heavy Oil and Conventional Pipelines assets at the beginning of 2011.

Net Finance Costs (Including Accretion)

Finance income in the first quarter of 2011 was $8.6 million, compared to $1 million in the first quarter of 2010. Finance income in the first quarter of 2011 includes an $8.3 million mark to market gain for the change in the fair value of the power swap derivative recorded through profit and loss under IFRS ($1 million in 2010). Finance costs also include interest expense of $15.8 million compared to $15.3 million in Q1 2010. The increase in interest expense was due to an increase of $3.9 million in respect of Pembina's convertible debentures which were issued in the fourth quarter of 2010, offset by a decrease in long-term debt interest of $3.4 million compared to the first quarter of 2010. The accretion on provisions was $2.5 million in the first quarter of 2011 versus $2.2 million in the first quarter of 2010. Finance costs in the first quarter of 2011 also includes a $4.2 million loss for the change in the fair value of the interest rate swaps and commodity swaps as at March 31, 2011 ($0.7 million as at March 31, 2010).

Income Tax Expense

Deferred income taxes arise from differences between the accounting and tax basis of assets and liabilities. An income tax expense of $13.5 million was recorded in the first quarter of 2011 compared to an income tax recovery of $2.6 million in the first quarter of 2010. The increased income tax expense is primarily due to the Conversion of the Fund to corporate structure and the resultant loss of tax efficiencies. See page 4 for further information on the Conversion.

Liquidity & Capital Resources

($ millions)	**3 Months Ended March 31, 2011**	December 31 2010
Working Capital(1)	**195.8**	125.0
Variable rate debt(2)		
Bank debt	**286.2**	246.2
Variable rate debt swapped to fixed	**(200.0)**	(200.0)
Total variable rate debt outstanding (average rate of 3.72%)	**86.2**	46.2
Fixed rate debt(2)		
Senior unsecured notes	**642.0**	642.0
Senior unsecured term debt	**75.0**	75.0
Senior secured notes	**64.0**	66.0
Variable rate debt swapped to fixed	**200.0**	200.0
Senior unsecured medium term note	**250.0**	
Total fixed rate debt outstanding (average rate of 5.50%)	**1,231.0**	983.0
Convertible debentures(2)	**300.0**	300.0
Finance lease liability	**4.5**	4.5
Total debt and debentures outstanding	**1,621.7**	1,333.7
Cash and unutilized debt facilities	**480.6**	429.2

(1) Current assets less current liabilities.
(2) Excluding amortization.

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 $480.6 million as at March 31, 2011. 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 the past several years 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 March 31, 2011 consisted of an unsecured $500 million revolving credit facility due July, 2012 and an operating facility of $50 million due July, 2011 but expected to be renewed on an annual basis. Borrowings bear interest at prime lending rates plus 0 percent to 0.5 percent on the revolving credit facility and prime lending rates plus 0.75 percent to 2.75 percent on the operating facility or Bankers' Acceptances rates, plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina and range from 0.5 percent to 3.75 percent. There are no repayments due over the term of these facilities. As at March 31, 2011, Pembina had $286.2 million drawn on bank debt (including $6.2 million in letters of credit) leaving $480.6 million of cash and unutilized debt facilities (cash as at March 31, 2011: $216.8 million) on the $550 million of established bank facilities. Other debt includes $63.5 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; $200 million in fixed rate senior unsecured notes due 2021; and, $250 million in medium term notes due 2021. At March 31, 2011, Pembina had loans and borrowing (net of amortization and excluding finance lease liabilities) of $1,311 million. The loans and borrowings, together with $308.3 million fair value of outstanding convertible debentures, resulted in a ratio of total debt to total enterprise value of 29.7 percent at March 31, 2011, compared to a ratio of 29.6 percent at December 31, 2010. See "Non-GAAP Measures" on page 18.

In November 2010, Pembina filed a Short Form Base Shelf Prospectus with Canadian regulatory authorities in each of the provinces of Canada. Under provisions detailed in the Short Form Base Shelf Prospectus, Pembina may offer and issue, from time-to-time: (i) shares; (ii) any bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description; (iii) warrants to purchase shares and warrants to purchase debt securities; and (iv) subscription receipts (collectively, the "Securities") of up to $1 billion aggregate initial offering price of Securities during the 25-month period that the shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more shelf prospectus supplements. On November 24, 2010, Pembina closed the sale of $300 million 5.75% convertible debentures pursuant to a prospectus supplement filed under the Short Form Base Shelf Prospectus and on March 29, 2011, Pembina closed the sale of $250 million of senior unsecured medium-term notes. The medium term notes have a fixed interest rate of 4.89 percent per annum, paid semi-annually, and will mature on March 29, 2021. The net proceeds from the offering of the medium term notes were used to repay a portion of Pembina's existing credit facility and to fund organic growth opportunities. Standard & Poor's Rating Services ("S&P") and DBRS Limited ("DBRS") have assigned credit ratings of BBB+ and BBB (high), respectively, to the medium term notes.

Pembina considers the maintenance of an investment grade credit rating as important to its ongoing ability to access capital markets on attractive terms. DBRS rates Pembina and has assigned a senior debt rating of 'BBB high'. These ratings were confirmed on October 5, 2010. On June 30, 2010, 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 March 31, 2011**	3 Months Ended March 31, 2010
Development capital		
Conventional Pipelines	**16.7**	3.2
Oil Sands & Heavy Oil	**99.8**	10.8
Midstream & Marketing	**90.3**	1.6
Gas Services	**15.6**	4.7
Corporate/other projects	**0.9**	0.2
Total development capital	**223.3**	20.5

During the first quarter of 2011, capital expenditures were $223.3 million compared to $20.5 million during the same three month period in 2010. The increase primarily reflects investments made to expand Pembina's Oil Sands & Heavy Oil business through the Nipisi and Mitsue Pipeline projects, the $57 million acquisition of the terminalling and storage facility near Edmonton, Alberta and the purchase of linefil for the Peace Pipeline system in Midstream & Marketing. Spending to progress the expansion of several of Pembina's Conventional Pipelines and to further the enhanced NGL extraction facility at the Cutbank Complex in Gas Services also contributed to the quarter-over-quarter increase.

Pembina expects to spend approximately $470 million on capital projects during 2011, excluding the acquisition of the Midstream & Marketing terminalling and storage facility.

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	71.2	6.8	13.5	7.9	43.0
Loans and borrowings(1)	1,311.0	8.1	558.2	22.6	722.1
Convertible debentures(1)	300.0				300.0
Construction commitments	255.5	252.0	3.5		
Provisions	285.4				285.4
Total contractual obligations	2,223.1	266.9	575.2	30.5	1,350.5

(1) Excluding amortization costs.

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 an 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, $260.2 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 19 of this report.

Common Share Information [1]

($ thousands, except where noted)	**May 24, 2011**[2]	March 31, 2011	March 31, 2010
Trading volume and value			
Total volume (shares)	**5,772,683**	17,781,372	22,074,560
Average daily volume (shares)	**160,352**	286,796	356,041
Value traded	**132,915**	390,673	387,005
Shares outstanding (shares)	**167,375,434**	167,122,897	162,212,619
Closing share price (dollars)	**23.90**	22.94	17.41
Market value			
Shares	**4,000,263**	3,833,802	2,842,128
5.75% convertible debentures	**307,500**[3]	308,250[4]	
7.35% convertible debentures			48,214[5]
Market capitalization	**4,307,763**	4,142,052	2,872,342
Senior debt	**1,269,703**	1,311,017	1,138,567
Total enterprise value[6]	**5,577,466**	5,453,069	4,010,908

(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. Trading information in this table reflects activity on the TSX.
(2) Based on 36 trading days from April 1, 2011 to May 24, 2011 inclusive.
(3) $300 million principal amount of 5.75 percent convertible debentures outstanding at a market price of $102.50 at May 24, 2011.
(4) $300 million principal amount of 5.75 percent convertible debentures outstanding at a market price of $102.75 at March 31, 2011.
(5) $34.3 million principal amount of 7.35 percent convertible debentures outstanding at a market price of $140.63 at March 31, 2010.
(6) Refer to "Non-GAAP Measures" on page 18.

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, 2010 and in Pembina's Annual Information Form for the year ended December 31, 2010. These documents are available on www.pembina.com and under Pembina's company profile on www.sedar.com.

Selected Quarterly Financial Information

	2011	2010				2009[1]			
($ millions, except where noted)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	**394.3**	290.2	266.6	386.4	289.0	256.4	211.9	185.5	158.0
Operations	**43.2**	42.3	40.0	37.2	36.4	39.7	39.6	35.8	44.1
Product purchases	**253.7**	161.7	148.4	261.9	163.1	127.2	80.8	64.4	41.9
Depreciation and amortization Included in operations	**14.9**	15.6	15.3	15.3	15.5	12.6	15.9	19.9	19.1
Gross profit	**82.5**	70.6	62.9	72.0	74.0	76.9	75.6	65.4	52.9
Cash flow from operating activities	**74.5**	48.0	62.9	65.7	66.5	72.0	62.2	49.2	41.2
Cash flow from operating activities per common share ($ per share)	**0.45**	0.29	0.39	0.40	0.41	0.46	0.40	0.33	0.30
Earnings for the period	**42.5**	55.1	28.6	39.9	52.2	52.9	44.7	36.2	28.3
Earnings per common share ($ per share):									
Basic	0.25	0.33	0.17	0.24	0.32	0.34	0.29	0.25	0.21
Diluted	0.25	0.33	0.17	0.24	0.32	0.33	0.29	0.24	0.21
Dividends	**65.1**	64.6	64.0	63.8	62.8	61.4	60.2	57.5	53.2
Dividends per common share ($ per share):									
Basic	**0.3900**	0.3900	0.3900	0.3900	0.3900	0.3900	0.3900	0.3899	0.3900
Diluted	**0.3849**	0.3859	0.3858	0.3861	0.3832	0.3848	0.3849	0.3847	0.3843
Common shares outstanding (thousands):									
Weighted average (basic)	**167.0**	165.0	164.0	163.2	161.8	157.5	154.4	147.5	136.3
Weighted average (diluted)	**167.6**	165.7	166.9	166.2	165.2	160.9	157.8	150.9	139.8
End of period	**167.1**	166.9	164.5	163.6	162.2	158.6	155.4	152.6	137.3

[1] As Pembina's IFRS transition date was January 1, 2010, 2009 comparative information has not been restated and is presented in accordance with Canadian GAAP.

Selected Quarterly Operating Information

	2011	2010				2009			
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Average throughput (thousands of barrels per day)									
Alberta	**372.2**	**355.6**	**343.2**	**352.3**	**370.2**	361.2	369.7	373.2	392.1
British Columbia	**18.1**	**19.4**	**18.2**	**18.1**	**19.1**	18.2	19.6	18.9	20.4
Total Conventional Throughput	**390.3**	**375.0**	**361.4**	**370.4**	**389.3**	379.4	389.3	392.1	412.5
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	**1,165.3**	**1,150.0**	**1,136.4**	**1,145.4**	**1,164.3**	1,154.4	1,164.3	1,167.1	1,187.5
Average daily Cutbank Complex (mmcf/d net to Pembina)	**228.3**	**227.8**	**215.8**	**221.6**	**216.9**	197.4	200.5		
Conventional Pipelines Revenue ($ per barrel)									
Alberta	**1.79**	**1.80**	**1.79**	**1.76**	**1.70**	1.62	1.58	1.62	1.59
British Columbia	**2.42**	**2.28**	**1.98**	**1.75**	**1.90**	2.23	1.84	1.91	2.29
Average Conventional Revenue	**1.85**	**1.85**	**1.81**	**1.76**	**1.72**	1.68	1.61	1.65	1.63
Operating Expenses ($ per barrel)									
Alberta	**0.65**	**0.63**	**0.59**	**0.56**	**0.57**	0.59	0.60	0.63	0.79
British Columbia	**1.09**	**1.36**	**0.97**	**0.95**	**0.86**	0.89	0.83	1.03	1.17
Average	**0.69**	**0.71**	**0.63**	**0.60**	**0.60**	0.62	0.63	0.67	0.81

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.

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 results from operating activities plus share of profit from equity accounted investees (before tax) plus depreciation and amortization (included in operations and general and administrative expense).

Adjusted earnings

Adjusted earnings is commonly used by management for assessing comparing financial performance each reporting period and is calculated as earnings before tax less hedging activities plus share of profit from equity accounted investees (before tax).

Operating margin

Operating margin is commonly used by management for assessing financial performance and is calculated as gross profit less operating expense and product purchases.

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 common shares and convertible debentures at a specific date plus senior debt.

Management believes these supplemental non-GAAP measures facilitate the understanding of Pembina's results from operations, leverage, liquidity and financial positions. Investors should be cautioned that EBITDA, adjusted earnings, operating margin and total enterprise value 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 future levels of cash dividends that Pembina intends to pay to its shareholders, including the ability of Pembina to maintain its current level of cash dividends to equity holders through 2013;
- the estimated future operating margin contributions from the Nipisi and Mitsue Pipelines, once such projects are completed;
- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, including in relation to the Pembina Nexus Terminal, the Nipisi and Mitsue Pipeline projects, the NGL extraction facility at the Cutbank Complex, the proposed expansion plans to strengthen Pembina's transportation service options that it provides to producers developing the Cardium oil formation located in Central Alberta and other facilities and energy infrastructure;
- pipeline, processing and storage facility and system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- Pembina's strategy and the development of new business initiatives;
- expectations regarding Pembina's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under governmental regulatory regimes including environmental regulations and related abandonment and reclamation obligations;
- future G&A expenses at Pembina;
- increased throughput potential due to increased activity and new connections and other initiatives on the Conventional Pipelines;
- future cash flows, potential revenue and cash flow enhancements across Pembina's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash dividends 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 operating margin 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, including unplanned shutdowns of the pipelines; there are no unforeseen construction costs related to the Nipisi and Mitsue Pipelines; and there are no unforeseen material costs relating to the pipeline systems which are not recoverable from shippers;
- in respect of the NGL extraction facility at the Cutbank Complex and its estimated in-service date of July 2011; that counterparties will comply with contracts in a timely manner; that there are no unforeseen events preventing the performance of contracts by Pembina; that there are no unforeseen construction costs related to the NGL extraction facility; and that there are no unforeseen material costs relating to the NGL extraction facility which are not recoverable from customers;
- the future exploration for and production of oil, NGLs and natural gas in the capture area around Pembina's conventional and midstream and marketing assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;
- prevailing regulatory, tax and environmental laws and regulations.

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

- the regulatory environment and decisions;
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key alliances and agreements;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non-performance or default by counterparties to agreements which Pembina or one or more of its affiliates has entered into in respect of its business;
- actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation;
- fluctuations in operating results;
- adverse general economic and market conditions in Canada, North America and elsewhere, including changes in interest rates, foreign currency exchange rates and commodity prices; and
- the other factors discussed under "Risk Factors" in Pembina's Management's Discussion and Analysis for the year ended December 31, 2010 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, 2010 and the Pembina's MD&A for the year ended December 31, 2010, each of which can be found under Pembina's SEDAR profile at www.sedar.com.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(unaudited)

($ thousands)	Note	**March 31, 2011**	December 31, 2010	January 1, 2010
Current assets				
Cash and cash equivalents		216,787	125,397	53,927
Trade and other receivables		96,914	105,474	83,244
Derivative financial instruments		2,896	5,199	1,334
Inventory		30,430	26,099	18,998
		347,027	262,169	157,503
Non-current assets				
Property, plant and equipment	5	2,370,059	2,159,097	1,965,683
Intangible assets		244,428	244,602	245,300
Employee benefits		413		1,979
Investments in equity accounted investees		189,341	190,739	196,330
Derivative financial instruments		2,078	241	
		2,806,319	2,594,679	2,409,292
		3,153,346	2,856,848	2,566,795
Current liabilities				
Trade payables and accrued liabilities		114,574	99,023	58,239
Dividends payable		21,723	21,694	20,616
Loans and borrowings	7	10,139	10,055	159,324
Derivative financial instruments		4,795	6,384	2,153
Convertible debentures				36,640
		151,231	137,156	276,972
Non-current liabilities				
Loans and borrowings	7	1,296,848	1,010,102	976,082
Convertible debenture		288,694	288,635	
Derivative financial instruments		4,806	7,703	4,812
Employee benefits		5,623	6,012	5,321
Share-based payments		4,872	5,252	12,893
Provisions	8	285,384	281,694	217,103
Deferred tax liabilities		83,952	69,686	75,839
		2,121,410	1,806,240	1,569,022
Equity				
Share capital and contributed surplus	9	1,798,517	1,794,536	1,657,803
Deficit		(762,004)	(739,351)	(660,030)
Accumulated other comprehensive income		(4,577)	(4,577)	
		1,031,936	1,050,608	997,773
		3,153,346	2,856,848	2,566,795

See accompanying notes to consolidated interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

($ thousands, except per share amounts)	Note	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010
Revenues		394,293	289,021
Cost of sales		311,801	214,938
Gross profit	11	82,492	74,083
General and administrative		14,646	8,917
Other		80	84
		14,726	9,001
Results from operating activities		67,766	65,082
Finance income		(8,633)	(1,035)
Finance costs		22,577	18,735
Net finance costs	10	13,944	17,700
Earnings before income tax		53,822	47,382
Share of profit of investments in equity accounted investees (net of tax)	11	2,190	2,221
Income tax expense (reduction)	6	13,520	(2,567)
Earnings and total comprehensive income for the period		42,492	52,170
Earnings per share			
Basic earnings per share		0.25	0.32
Diluted earnings per share		0.25	0.32

See accompanying notes to consolidated interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(unaudited)

($ thousands)	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010	Year Ended December 31, 2010
Trust Units			
Balance, beginning of period		1,657,803	1,657,803
Exercise of trust unit options		14,972	31,091
Issue of trust units, debenture conversions		3,820	10,134
Issue of trust units, distribution reinvestment plan		41,838	55,898
Share issue costs			(104)
Exchange of trust units for common shares on conversion to Corporation			(1,754,822)
Balance, end of period		1,718,433	
Share Capital and Contributed Surplus			
Balance, beginning of period	1,794,536		
Balance on conversion to corporation			1,754,822
Change of stock options from cash settled to equity settled			8,927
Exercise of stock options	3,825		5,116
Share based payment transactions	161		194
Issue of common shares, debenture conversions			25,299
Other	(5)		178
Balance, end of period	1,798,517		1,794,536
Deficit			
Balance, beginning of period	(739,351)	(660,030)	(660,030)
Earnings for the period	42,492	52,170	175,830
Dividends declared	(65,145)	(62,829)	(255,151)
Balance, end of period	(762,004)	(670,689)	(739,351)
Other Comprehensive Income (Loss)			
Balance, beginning of period	(4,577)		
Defined benefit plan actuarial gains and losses, net of tax			(4,577)
Balance, end of period	(4,577)		(4,577)
Total Shareholders' Equity	1,031,936	1,047,744	1,050,608

See accompanying notes to consolidated interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(unaudited)

($ thousands)	Note	**3 Months Ended March 31, 2011**	3 Months Ended March 31, 2010
Cash provided by (used in):			
Operating activities:			
Earnings for the period		42,492	52,170
Adjustments for:			
Depreciation and amortization		15,104	16,175
Net finance costs		13,944	17,700
Share of profit of investments in equity accounted investees (net of tax)		(2,190)	(2,221)
Income tax expense (reduction)	6	13,520	(2,567)
Share based payments		3,978	733
Employee future benefits expense		1,198	803
Other		51	42
Changes in non-cash working capital		(1,451)	(6,754)
Distributions from investments in equity accounted investees		1,448	4,398
Decommissioning liability expenditures		(1,036)	
Employer future benefit contributions		(2,000)	(2,500)
Payments received and deferred		32	
Interest paid		(10,717)	(11,565)
Interest received	10	105	64
Cash flow from operating activities		74,478	66,478
Financing activities:			
Bank borrowings		40,000	334
Repayment of senior secured notes		(1,942)	(1,806)
Repayment of finance leases		(570)	(413)
Issuance of debt		250,000	
Financing fees		(1,702)	
Share issue costs	9	(5)	
Exercise of stock options		3,825	12,504
Issue of shares under Distribution Reinvestment Plan			41,838
Dividends to shareholders - current year		(43,422)	(41,746)
Dividends to shareholders- prior year		(21,694)	(20,617)
Cash flow from financing activities		224,490	(9,906)
Investing activities:			
Capital expenditures		(207,578)	(19,980)
Cash flow from investing activities		(207,578)	(19,980)
Change in cash		91,390	36,592
Cash, beginning of period		125,397	53,927
Cash, end of period		216,787	90,519

See accompanying notes to consolidated interim financial statements

(Unaudited)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Quarter ended March 31, 2011 and year ended December 31, 2010.

1. REPORTING ENTITY

Pembina Pipeline Corporation ("Pembina" or the "Corporation") is an energy transportation and service provider domiciled in Canada. The condensed consolidated interim financial statements ("Interim Financial Statements") include the accounts of the Corporation, its wholly owned subsidiary companies, partnerships and any interests in associates and jointly controlled entities as at and for the three months ending March 31, 2011. The Interim Financial Statements present fairly the financial position, financial performance and cash flows of the Corporation.

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

The Interim Financial Statements follow the continuity of interest basis of accounting whereby the Corporation is considered a continuation the Fund. As a result, the consolidated comparative statement of financial position, statements of comprehensive income, statements of changes in shareholders' equity and cash flows include the Fund's results of operations for the period up to and including September 30, 2010 and the Corporation's results of operations thereafter. All references to shares and shareholders in the condensed consolidated interim financial statements and notes pertain to common shares and common shareholders subsequent to the conversion and trust unit and trust unit holders prior to the conversion.

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

The consolidated financial statements as at and for the year ended December 31, 2010 which were prepared under Canadian Generally Accepted Accounting Principles prior to the adoption of IFRS (referred to in these Interim Financial Statements as "Canadian GAAP") are available upon request from the Corporation's registered office at 2000, 700 – 9th Avenue S.W., Calgary, Alberta Canada T2P 3V4 or at www.sedar.com.

2. BASIS OF PREPARATION

a. Statement of compliance

The Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These are the Corporation's first International Financial Reporting Standard ("IFRS") Interim Financial Statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 First-Time Adoption of International Financial Reporting Standards has been applied. The Interim Financial Statements do not include all of the information required for full annual financial statements.

An explanation of how transition has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 12. The note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP, the Corporation's previous GAAP, to those reported for those periods and at the date of transition under IFRS. In addition, certain supplemental 2010 annual information has been included throughout the notes. The possibility exists that the statements of financial position as at December 31, 2010 and as at January 1, 2010 may require adjustment before inclusion in the first annual IFRS financial statements as at December 31, 2011 because of revisions or changes to standards or interpretations on the application of a particular IFRS, or voluntary changes to IFRS 1 exemptions (mandatory exceptions and optional exemptions) or policies as selected by the Corporation.

The Interim Financial Statements were authorized for issue by the Board of Directors on May 25, 2011.

(Unaudited)

b. Basis of measurement

The Interim Financial Statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value; and
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

c. Functional and presentation currency

The Interim Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been disclosed in thousands except where noted.

d. Use of estimates and judgments

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

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

In preparing these Interim Financial Statements, the significant judgments made by management applying the Corporation's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment within the next financial years are included in the following notes:

1. Defined benefit obligations

The calculation of the defined benefit obligation is sensitive to many estimates, but most significantly the discount rate applied.

2. Provisions and contingencies

Based on the long term nature of the decommissioning provision, the biggest uncertainties in estimating the provision are the discount rates used and the costs that will be incurred and the timing when these costs will occur. In addition, in determining the provision it is assumed that the Corporation will utilize technology and materials that are currently available.

3. Deferred Taxes

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

4. Depreciation and amortization

Estimated useful lives of property, plant and equipment is based on management's assumptions about the physical useful lives of the assets, the economic life, which may be associated with the reserve life of the production area, in addition to the estimated residual value and method which the asset depreciates (depreciation method).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Interim Financial Statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(Unaudited)

a. Basis of consolidation

i) Business combinations

Acquisitions on or after January 1, 2010

For acquisitions after January 1, 2010, the Corporation measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

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

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, the Corporation elected to not restate any business combinations that occurred before January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

ii) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the Interim Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Corporation.

iii) Investments in associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Corporation has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

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

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

iv) Transactions eliminated on consolidation

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate and joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates and joint ventures are recognized in the statement of comprehensive earnings.

(Unaudited)

v) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The Interim Financial Statements include the assets that the Corporation controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Corporation incurs and its share of the income that it earns from the joint operation.

vi) Foreign currency

Transactions in foreign currencies are translated to the Corporation's functional currency, Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

b. Financial instruments

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

i) Non-derivative financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation classifies non-derivative financial assets into the following categories: Cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and short term investments with original maturities of ninety days or less.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

ii) Non-derivative financial liabilities

The Corporation initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

(Unaudited)

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Corporation's non-derivative financial liabilities are comprised of the following: trade payables and accrued liabilities, dividends payable, loans and borrowings including finance lease obligations and convertible debentures.

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

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

iii) Share capital

Common shares

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

Trust units

Trust units which were outstanding in the comparative Statement of Financial Position (until Pembina's conversion to a corporation), are classified as a liability for purposes of the debt/equity allocation for convertible debentures. The trust units themselves, however, are presented as equity on the Statement of Financial Position and for purposes of calculating earnings per share.

iv) Compound financial instruments

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

v) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its interest rate, commodity, power costs and foreign exchange risk exposures as well as convertible debentures during the comparative period with the convertible feature deemed to be a derivative based on the trust unit classification as a liability. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Derivatives are recognized initially at fair value with attributable transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized immediately in profit or loss.

(Unaudited)

c. Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

ii) Subsequent costs

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

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets, other than land, are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight line or declining balance basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Pipeline assets and facilities are generally depreciated using the straight line method over 6 to 33 years (an average of 27.5 years) or declining balance method at rates ranging from 3 percent to 33 percent per annum (an average rate of 5.3 percent per annum). Storage assets and facilities are depreciated using the straight line method over 6 to 40 years or declining balance method at rates ranging from 3 percent to 33 percent. These rates are established to depreciate remaining net book value over the economic lives or contractual duration of the related assets.

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

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Estimates in respect of certain items of property, plant and equipment were revised in 2011.

(Unaudited)

d. Intangible assets

i) Goodwill

Goodwill that arises upon acquisitions is included in intangible assets. See note 3(a)(i) for the policy on measurement of goodwill at initial recognition.

Goodwill recognized prior to January 1, 2010, is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is allocated to the investment and not to any asset, including goodwill, that forms the carrying amount of the equity accounted investee.

ii) Other intangibles

Other intangible assets acquired individually or as part of a Corporation are assets that have finite useful lives are recognized and measured at cost less accumulated amortization and accumulated impairment losses.

iii) Subsequent expenditure

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

iv) Amortization

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of other intangible assets are 20 – 33 years.

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

e. Leased assets

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

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

f. Inventories

Inventories are measured at the lower of cost and net realizable value and consist primarily of crude oil and other commodities for storage. The cost of inventories is determined by the current month weighted average purchase price. The cost includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, measured by the one-month forward price for the commodity, less the estimated selling costs. All changes in the value of the inventories are reflected in inventories and profit or loss.

g. Impairment

i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates

(Unaudited)

that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and the impact can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Corporation, economic conditions that correlate with defaults or the disappearance of an active market for a security or a significant or prolonged decline in the fair value below cost.

Trade and other receivables ("Receivables")

The Corporation considers evidence of impairment for Receivables at both a specific asset and collective level. All individually significant Receivables are assessed for specific impairment. All individually significant Receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together Receivables with similar risk characteristics.

In assessing collective impairment the Corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against Receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories, line fill and assets arising from employee benefits and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related Cash Generating Unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal purposes. Goodwill acquired in a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

(Unaudited)

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

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

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

h. Employee benefits

i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

ii) Defined benefit pension plans ("Plans")

A defined benefit pension plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value. Unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used to determine the present value is comprised of the following: estimated returns for each major asset class consistent with market conditions on the valuation date and the target asset mix specified in the Plans investment policy, additional net returns assumed to be achievable due to active equity management, implicit provision for expenses determined as the average rate of investment and administrative expenses paid by the Plans over the last five years, and a margin for adverse deviations, based on the proportion of the Plans assets invested in equities in excess of the return expected on equities, over government bond yields.

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

(Unaudited)

All actuarial gains and losses at January 1, 2010, the date of transition to IFRS, were recognized in the deficit. The Corporation recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss.

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

iii) Other long-term employee benefits

The Corporation's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is comprised of the following: estimated returns for each major asset class consistent with market conditions on the valuation date and the target asset mix specified in the Plans investment policy, additional net returns assumed to be achievable due to active equity management, implicit provision for expenses determined as the average rate of investment and administrative expenses paid from the Plans over the last five years, and a margin for adverse deviations, based on the proportion of the Plans assets invested in equities in excess return expected on equities, over government bond yields.

The calculation is performed using an actuary.

iv) Short-term employee benefits

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

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

v) Share-based payment transactions

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

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

i. Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Accretion is recognized as finance cost.

(Unaudited)

i) Decommissioning provision

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

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

ii) Site restoration

In accordance with the Corporation's environmental practices, industry practice, regulations and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognized when the land is contaminated and an estimate can reasonably be made.

j. Revenue

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

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

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

k. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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

i) Determining whether an arrangement contains a lease

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

(Unaudited)

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

l. Finance income and finance costs

Finance income comprises interest income on funds deposited and invested, gains in derivatives measured at fair value through profit or loss and foreign exchange gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on loans and borrowings, accretion, losses on disposal of available for sale financial assets, losses on financial assets recognized at fair value through profit or loss, impairment losses recognized on financial assets (other than trade and other receivables) foreign exchange losses and losses on derivative financial instruments that are recognized in profit or loss.

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

m. Income tax

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

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

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

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

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

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

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

(Unaudited)

n. Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all potentially dilutive common shares, which comprise convertible debentures and share options granted to employees ("Convertible Instruments"). Only outstanding and Convertible Instruments that will have a dilutive effect are included in fully diluted calculations.

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

Earnings per unit in the comparative period are calculated assuming the units were recognized as equity.

o. Segment reporting

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

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

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

p. Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as equity-settled share-based payments, unrealized gains and losses, depreciation and amortization, and employee future benefit expenses, among others, have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders, distributions from equity accounted investees, employee future benefit contributions, decommissioning liability expenditures, among other expenditures, are included in financing activities. Interest paid is included in operating activities.

q. New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are available for early adoption for accounting periods beginning after January 1, 2010. The Corporation has reviewed these and determined that the following may have an impact on the Corporation:

IFRS 9 (2010) *Financial Instruments* supersedes IFRS 9 (2009) *Financial Instruments* and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. For annual periods beginning before January 1, 2013, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Corporation intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(Unaudited)

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interest in Other Entities* and IFRS 13 *Fair Value Measurement* are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation intends to adopt IFRS 10, IFRS 11, IFRS 12 and IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact has not yet been determined.

4. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on and replacement cost when appropriate.

ii) Intangible assets

The fair value of customer relationships and service contracts acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

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

iii) Derivatives

Fair value of derivatives is estimated by discounting the difference between the contractual forward price or rate and the current market price or rate for the residual maturity of the contract.

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

iv) Non-derivative financial assets and liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the convertible debentures, the fair value is determined by the market price of the convertible debenture on the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

v) Share-based payment transactions

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

The fair value of the long term restricted and performance incentive plan is measured based on the reporting date market price of the Corporation's shares. Expected dividends are issued as additional distribution share units and are not taken into account in determining fair value.

(Unaudited)

vi) Inventories

The net realizable value of inventories is determined based on the estimated selling price in the ordinary course of business less estimated cost to sell.

5. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment consist primarily of conventional pipelines, gathering systems, linefill, oil sands and heavy oil infrastructure, natural gas plants and marketing storage facilities.

The pipeline systems in Alberta and British Columbia are subject to the respective provincial utilities board authority over matters such as construction, rates and rate setting agreements with customers. Pipelines crossing provincial borders are also subject to the authority of the National Energy Board. The Alberta pipelines generally operate under market tolling arrangements and the utilities board will not review rates unless it receives a complaint.

On January 12, 2011, Pembina Midstream Limited Partnership, a subsidiary of Pembina, completed a $57 million acquisition of pipeline connected terminalling and storage facilities in Edmonton, Alberta. The strategically located assets and facilities are capable of creating tailored products and services for Pembina's customers. The assets have in excess of 300,000 barrels of existing storage and sufficient bare land to develop and expand. The assets are used to receive, aggregate and deliver product to and from Pembina's customers and currently has various upstream and downstream interconnections.

	Land and Land Rights	Pipelines	Facilities and Equipment	Linefill and Other	Assets Under Construction	Total
Cost						
Balance at January 1, 2010	57,194	1,910,592	468,426	149,920	119,614	2,705,746
Additions	3	78,419	5,226	3,752	168,801	256,201
Transfers	51	8,256	12,660	6,629	(27,596)	
Disposals			(2,547)	(11,184)		(13,731)
Balance at December 31, 2010	57,248	1,997,267	483,765	149,117	260,819	2,948,216
Additions	4,997	26,404	26,635	13,657	154,249	225,942
Transfers	52	(28,062)	8,300	32,937	(13,227)	
Disposals		(30)	(144)			(174)
Balance at March 31, 2011	62,297	1,995,579	518,556	195,711	401,841	3,173,984
Depreciation						
Balance at January 1, 2010	3,999	619,291	63,942	52,831		740,063
Depreciation	44	39,986	14,901	7,644		62,575
Disposals			(2,345)	(11,174)		(13,519)
Balance at December 31, 2010	4,043	659,277	76,498	49,301		789,119
Depreciation	11	9,752	4,260	906		14,929
Disposals		(24)	(99)			(123)
Balance at March 31, 2011	4,054	669,005	80,659	50,207		803,925
Carrying amounts						
At January 1, 2010	53,195	1,291,301	404,484	97,089	119,614	1,965,683
At December 31, 2010	53,205	1,337,990	407,267	99,816	260,819	2,159,097
At March 31, 2011	58,243	1,326,574	437,897	145,504	401,841	2,370,059

(Unaudited)

Property, plant and equipment under construction

During the quarter ended March 31, 2011, the Corporation continued construction on the Nipisi and Mitsue pipelines. Costs of assets under construction at March 31, 2011 totalled $401.8 million, of which $260.2 million relates to the Nipisi and Mitsue pipelines. Cost of assets under construction as at December 31, 2010 totalled $260.8 million ($176.8 million for Nipisi and Mitsue pipelines). Such amounts include capitalized borrowing costs.

For the quarter ended March 31, 2011, capitalized borrowing costs related to the construction of the new pipelines amounted to $22.8 million, with capitalization rates ranging from 1.65 percent to 1.80 percent (based on weighted average bankers' acceptances rates).

Commitments

At March 31, 2011, the Corporation has contractual commitments for the acquisition and or construction of property, plant and equipment of $255.5 million (December 31, 2010: $345.8 million).

Change in estimates

During the quarter ended March 31, 2011 the Corporation conducted a review of its property plant and equipment which resulted in changes in the expected lives of certain items. Certain pipeline systems, which management previously intended to have useful lives ranging from declining balance method of 4 percent to 9 percent and straight line basis from 23 to 27 years, is now expected to range from 18 percent to 48 percent declining balance and 75 years straight line as at March 31, 2011. As a result the expected useful lives of these assets increased. The effect of these changes on depreciation expense, recognized in cost of sales, in current and future periods is as follows:

	2011	**2012**	**2013**	**2014**	**2015**
Decrease in depreciation expense	(5,298)	(10,636)	(13,188)	(14,262)	(14,549)

6. INCOME TAX EXPENSE

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation's consolidated effective tax rate for the three months ending March 31, 2011 was 25.2 percent.

Reconciliation of effective tax rate

	3 Months Ended March 31, 2011	3 Months Ended March 31, 2010
Earnings before income tax	53,822	47,382
Statutory tax rate	26.5%	28.0%
Income tax at statutory rate	14,263	13,267
Tax rate changes on deferred income tax balances	(811)	(1,336)
Interest deductions of subsidiaries arising from intercorporate debt		(13,992)
Interest on convertible debentures		183
Other	68	(689)
Income tax expense	13,520	(2,567)

(Unaudited)

7. LOANS AND BORROWINGS

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

Carrying value terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				March 31, 2011	December 31, 2010	January 1, 2010
	Available facilities	Nominal interest rate	Year of maturity	Carrying amount	Carrying amount	Carrying amount
Operating facility[1]	50,000	prime + 0.75 or BA[2] + 1.75	2011			
Unsecured revolving credit facility	500,000	prime or BA[2] + 1.75	2012	279,962	239,949	199,898
Non-revolving credit facility		prime + 1.75				148,798
Unsecured non-revolving term facility	75,000	6.16	2014	74,557	74,517	74,355
Senior unsecured notes – Series A	175,000	5.99	2014	174,310	174,247	173,996
Senior unsecured notes – Series C	200,000	5.58	2021	196,386	196,293	195,944
Senior unsecured notes – Series D	267,000	5.91	2019	265,257	265,201	265,230
Senior secured notes	63,476	7.38	2017	63,476	65,395	72,724
Senior unsecured medium term notes	250,000	4.89	2021	248,512		
Finance lease liabilities	4,527	6.02-9.73	2011-2015	4,527	4,555	4,461
Total interest-bearing liabilities	1,585,003			1,306,987	1,020,157	1,135,406
Less current portion				(10,139)	(10,055)	(159,324)
Total non-current				1,296,848	1,010,102	976,082

1 Operating facility expected to be renewed on an annual basis.

2 Bankers Acceptance.

Senior unsecured medium-term notes issued in the period

On March 29, 2011, Pembina issued $250 million of senior unsecured medium term notes. Net proceeds from the issuance of $248.5 million were net of $1.5 million transaction costs. The notes have a fixed interest rate of 4.89 percent per annum, paid semi-annually, and will mature March 29, 2021.

8. PROVISIONS

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

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

Supplementary annual disclosure

	Decommissioning	Other	Total
Balance at January 1, 2010	213,569	3,534	217,103
Change in estimate during the period	(9,835)		(9,835)
Change in market discount rate	65,222	832	66,054
Accretion	8,228	144	8,372
Balance at December 31, 2010	277,184	4,510	281,694

(Unaudited)

Based on the long term nature of the decommissioning provision, the biggest uncertainties in estimating the provision are the discount rates used and the costs that will be incurred and the timing when these costs will occur. In addition, in determining the provision it is assumed that the Corporation will utilize technology and materials that are currently available.

9. CAPITAL AND OTHER COMPONENTS OF EQUITY

Shareholder's capital

Pembina is authorized to issue an unlimited number of no par value voting common shares and preferred shares. The holder's of the common shares are entitled to receive notice of, attend and vote at any meeting of the shareholders of the Corporation, receive dividends declared and share in the remaining property of the Corporation upon distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

	Number	Shareholder's Capital and Contributed Surplus
Balance January 1, 2011	166,876,651	1,794,536
Exercise of stock options and share based payment transactions	246,246	3,986
Other		(5)
Balance March 31, 2011	167,122,897	1,798,517

Dividends

The following dividends were declared and paid by the Corporation:

	3 Months Ended March 31, 2011	3 Months Ended March 31, 2010
$0.39 per qualifying common share (2010: $0.39)	65,145	62,829

After the respective reporting dates, the April and May dividend declaration of 0.13 cents per month per qualifying common share were declared by management in the amount of $21.7 million per month.

(Unaudited)

10. NET FINANCE COSTS

	3 Months Ended March 31, 2011	3 Months Ended March 31, 2010
Interest income on:		
Loans to related parties[1]	190	
Bank deposits	105	64
Foreign exchange gains	80	
Change in fair value of derivatives	8,258	971
Finance Income	8,633	1,035
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	11,165	14,535
Convertible debentures	4,567	655
Finance leases	96	87
Accretion	2,512	2,214
Change in fair value of derivatives	4,237	680
Foreign exchange losses		564
Finance cost	22,577	18,735
Net finance costs	13,944	17,700

1 *The Corporation is funding its share of the construction of new assets for its equity accounted investment and has recorded a $14.1 million loan receivable as at March 31, 2011.*

11. OPERATING SEGMENTS

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

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

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

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

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

The financial results of the business segments are included below. Performance is measured based on operating margin and results from operating activities before tax, as included in the internal management reports that are reviewed by the Corporation's CEO, CFO and COO. The segments results from operating activities, before tax and net of depreciation and amortization, is used to measure performance as management believes that such information is the most relevant in evaluating results of certain segments relative to other entities that operate within these industries.

(Unaudited)

	March 31, 2011					
	Conventional Pipelines[(1)]	**Oil Sands & Heavy Oil**	**Midstream & Marketing**	**Gas Services**	**Corporate**	**Total**
Revenue from external customers:						
Pipeline transportation	69,256	30,547				99,803
Terminalling, storage and hub services			279,516			279,516
Gas Services				14,974		14,974
	69,256	30,547	279,516	14,974		394,293
Cost of sales:						
Operations	25,214	11,206	2,094	4,690		43,204
Product purchases			253,742			253,742
Operating margin	44,042	19,341	23,680	10,284		97,347
Depreciation and amortization included in operations	9,757	1,943	867	2,288		14,855
Gross profit	34,285	17,398	22,813	7,996		82,492
Depreciation and amortization included in general and administrative					249	249
Other general and administrative	1,286	597	1,187	1,141	10,186	14,397
Other	42		15	6	17	80
Reportable segment results from operating activities before tax	32,957	16,801	21,611	6,849	(10,452)	67,766
Share of profit of investment in equity accounted investees, net of tax			2,190			2,190
Property, plant and equipment	832,020	948,543	231,433	348,488	9,575	2,370,059
Investment in equity accounted investees			189,341			189,341

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

	March 31, 2010					
	Conventional Pipelines[(1)]	**Oil Sands & Heavy Oil**	**Midstream & Marketing**	**Gas Services**	**Corporate**	**Total**
Revenue from external customers:						
Pipeline transportation	64,726	28,836				93,562
Terminalling, storage and hub services			180,947			180,947
Gas Services				14,512		14,512
	64,726	28,836	180,947	14,512		289,021
Cost of sales:						
Operations	21,574	9,348	1,320	4,052		36,294
Product purchases			163,144			163,144
Operating margin	43,152	19,488	16,483	10,460		89,583
Depreciation and amortization included in operations	7,211	5,604	591	2,094		15,500
Gross profit	35,941	13,884	15,892	8,366		74,083
Depreciation and amortization included in general and administrative					675	675
Other general and administrative	951	665	966	685	4,975	8,242
Other					84	84
Reportable segment results from operating activity before tax	34,990	13,219	14,926	7,681	(5,734)	65,082
Share of profit of investment in equity accounted investees, net of tax			2,221			2,221
Property, plant and equipment	759,577	803,919	113,844	283,604	7,892	1,968,836
Investment in equity accounted investees			194,933			194,933

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

12. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2(a), these are the Corporation's first condensed consolidated interim financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented in these interim financial statements for the

(Unaudited)

three months ended March 31, 2010, the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity at January 1, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRSs	Reclass	IFRS
		January 1, 2010			
Current assets					
Cash and cash equivalents		53,927			53,927
Trade and other receivables		83,244			83,244
Derivative financial instruments				1,334	1,334
Inventory		18,998			18,998
		156,169		1,334	157,503
Non - current assets					
Property, plant and equipment	a,d,e	2,045,917	(80,234)		1,965,683
Intangible assets	a	361,242	(115,942)		245,300
Employee benefits	c	17,797	(19,928)	4,110	1,979
Investments in equity accounted investees	a		196,330		196,330
		2,424,956	(19,774)	4,110	2,409,292
		2,581,125	(19,774)	5,444	2,566,795
Current liabilities					
Trade payable and accrued liabilities	b,g	57,997	1,453	(1,211)	58,239
Dividends payable		20,616			20,616
Loans and borrowings	e	157,423	1,901		159,324
Derivative financial instruments				2,153	2,153
Convertible debentures		36,640			36,640
		272,676	3,354	942	276,972
Non-current liabilities					
Loans and borrowings	e	973,522	2,560		976,082
Derivative financial instruments	f	5,481	150	(819)	4,812
Employee benefits				5,321	5,321
Share based payments	b		12,893		12,893
Provisions	d	104,204	112,899		217,103
Deferred tax liabilities	h	95,870	(20,031)		75,839
		1,451,753	111,825	5,444	1,569,022
Equity					
Share capital and contributed surplus	b	1,660,795	(2,992)		1,657,803
Deficit	i	(527,082)	(132,948)		(660,030)
Accumulated other comprehensive income	f	(4,341)	4,341		
		1,129,372	(131,599)		997,773
		2,581,125	(19,774)	5,444	2,566,795

(Unaudited)

Reconciliation of equity at December 31, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	Reclass	IFRS
		December 31, 2010			
Current assets					
Cash and cash equivalents		125,397			125,397
Trade and other receivables		105,474			105,474
Derivative financial instruments				5,199	5,199
Inventory		26,099			26,099
		256,970		5,199	262,169
Non-current assets					
Property, plant and equipment	a,d,e	2,172,450	(13,353)		2,159,097
Intangible assets	a	356,793	(112,191)		244,602
Employee benefits	c	20,195	(25,058)	4,863	
Investments in equity accounted investees	a		190,739		190,739
Derivative financial instruments				241	241
		2,549,438	40,137	5,104	2,594,679
		2,806,408	40,137	10,303	2,856,848
Current liabilities					
Trade payable and accrued liabilities	b,g	99,228	944	(1,149)	99,023
Dividends payable		21,694			21,694
Loans and borrowings	e	7,981	2,074		10,055
Derivative financial instruments				6,384	6,384
		128,903	3,018	5,235	137,156
Non-current liabilities					
Loans and borrowings	e	1,007,620	2,482		1,010,102
Convertible debentures		288,635			288,635
Derivative financial instruments	f	8,647		(944)	7,703
Employee benefits				6,012	6,012
Share based payments	b		5,252		5,252
Provisions	d	101,437	180,257		281,694
Deferred tax liabilities	h	91,006	(21,320)		69,686
		1,626,248	169,689	10,303	1,806,240
Equity					
Share capital and contributed surplus	b	1,782,804	11,732		1,794,536
Deficit	i	(595,533)	(143,818)		(739,351)
Accumulated other comprehensive income	f	(7,111)	2,534		(4,577)
		1,180,160	(129,552)		1,050,608
		2,806,408	35,755	10,303	2,856,848

(Unaudited)

Reconciliation of equity at March 31, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	Reclass	IFRS
		March 31, 2010			
Current assets					
Cash and cash equivalents		90,519			90,519
Trade and other receivables		80,190			80,190
Derivative financial instruments				9,705	9,705
Inventories		21,350			21,350
		192,059		9,705	201,764
Non-current assets					
Property, plant and equipment	a,d,e	2,048,774	(79,937)		1,968,837
Intangible assets	a	360,130	(115,004)		245,126
Employee benefits	c	19,223	(19,685)	462	
Investments in equity accounted investees	a		194,933		194,933
		2,428,127	(19,693)		2,408,896
		2,620,186	(19,693)	10,167	2,610,660
Current liabilities					
Trade payable and accrued liabilities	b,g	55,276	2,977	(1,183)	57,070
Dividends/distributions payable		21,083			21,083
Loans and borrowings	e	157,559	1,857		159,416
Derivative financial instruments				11,130	11,130
Convertible debentures		32,820			32,820
		266,738	4,834	9,947	281,519
Non-current liabilities					
Loans and borrowings	e	971,915	2,345		974,260
Derivative financial instruments	f	5,505	135	(1,425)	4,215
Employee benefits				1,645	1,645
Share-based payments	b		7,947		7,947
Provisions	d	105,954	113,364		219,318
Deferred tax liabilities	h	93,921	(19,908)		74,013
		1,444,033	108,717	10,167	1,562,917
Equity					
Share capital and contributed surplus	b	1,719,120	(687)		1,718,433
Deficit	i	(538,838)	(131,852)		(670,690)
Accumulated other comprehensive income	f	(4,129)	4,129		
		1,176,153	(128,410)		1,047,743
		2,620,186	(19,693)	10,167	2,610,660

(Unaudited)

Reconciliation of comprehensive income for the year ended December 31, 2010.

	Note	Canadian GAAP	Effect of transition to IFRS	Reclass	IFRS
Revenues:					
Conventional pipelines		261,617			261,617
Oil sands and heavy oil		118,420			118,420
Midstream & marketing	a	813,567	(22,912)		790,655
Gas services		61,498			61,498
		1,255,102	(22,912)		1,232,190
Cost of sales					
Operations	a,b,c,d,e	160,147	(1,485)	(2,844)	155,818
Product purchases		735,223			735,223
Depreciation and amortization	a,c,d	66,891	(3,617)	(1,622)	61,652
		962,261	(5,102)	(4,466)	952,693
Gross profit		292,841	(17,810)	4,466	279,497
G&A expenses	b,c,g	44,086	79	4,466	48,631
Other expense (income)		(189)		847	658
Accretion	d	7,068	1,304	(8,372)	
		50,965	1,383	(3,059)	49,289
Results from operating activities		241,876	(19,193)	7,525	230,208
Finance income	f		(10,097)	(1,617)	(11,714)
Finance costs	e,f	60,168	14,205	9,142	83,515
Net finance costs		60,168	4,108	7,525	71,801
Earnings before income tax		181,708	(23,301)		158,407
Share of profit of investments in equity accounted investees, net of tax	a		(9,103)		(9,103)
Income tax recovery	a,b,c, d,e,f,g,h	(4,992)	(3,328)		(8,320)
Earnings for the period		186,700	(10,870)		175,830
Other comprehensive income, net of income tax					
Defined benefit plan actuarial losses	c		(4,577)		(4,577)
Net change in fair value of cash flow hedges	f	(2,770)	2,770		
Total comprehensive income for the period		183,930	(12,677)		171,253
Earnings per share/unit					
Basic earnings per share/unit (dollars)		1.14			1.08
Diluted earnings per share/unit (dollars)		1.14			1.07

(Unaudited)

Reconciliation of comprehensive income for the three months ended March 31, 2010.

	Note	Canadian GAAP	Effect of transition to IFRS	Reclass	IFRS
Revenues:					
Conventional pipelines		64,726			64,726
Oil sands and heavy oil		28,836			28,836
Midstream & marketing	a	186,583	(5,636)		180,947
Gas services		14,512			14,512
		294,657	(5,636)		289,021
Cost of sales					
Operations	a,b,c,e	38,280	(1,904)	(81)	36,295
Product purchases		163,144			163,144
Depreciation and amortization	a,d,e	17,255	(1,081)	(675)	15,499
		218,679	(2,985)	(756)	214,938
Gross profit		75,978	(2,651)	756	74,083
G&A expenses	b,g,c	9,395	(1,234)	756	8,917
Other expense (income)		643		(559)	84
Accretion	d	1,750	464	(2,214)	
		11,788	(770)	(2,017)	9,001
Results from operating activities		64,190	(1,881)	2,773	65,082
Finance income	f		(848)	(187)	(1,035)
Finance costs	e,f	15,125	650	2,960	18,735
Net finance costs		15,125	(198)	2,773	17,700
Earnings before income tax		49,065	(1,683)		47,382
Share of profit of investments in equity accounted investees, net of tax	a		(2,221)		(2,221)
Income tax recovery	a,b,c, d,e,f,h	(2,008)	(559)		(2,567)
Earnings for the period		51,073	1,097		52,170
Other comprehensive income, net of income tax					
Net change in fair value of cash flow hedges	f	212	(212)		
Total comprehensive income for the period		51,285	885		52,170
Earnings per share/unit					
Basic earnings per share/unit (dollars)		0.32			0.32
Diluted earnings per share/unit (dollars)		0.31			0.32

IFRS 1 elections and exemptions

IFRS 1 allows first-time adopters certain exemptions from retrospective application of certain IFRS. The Corporation plans to apply the following exemptions from retrospective application of certain IFRS.

Exemptions that are not applicable, or without an accounting policy change or no significant impact, have not been listed.

a. Business combinations

IFRS 3 *Business Combinations* requires entities to retrospectively adjust business combinations that occurred prior to January 1, 2010. The transitional 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.

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b. Employee benefits (actuarial gains and losses)

Pembina will elect this exemption which allows the recognition of Canadian GAAP cumulative unrecognized actuarial losses as at December 31, 2009 in deficit 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.

c. 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. Pembina has elected to apply the optional exemption available to first time adopters to apply with requirements to changes in such liabilities that occurred after the date of IFRS transition.

d. Share-based payment transactions

Pembina has elected the exemption for its shared-based payment plans, and will apply IFRS 2, *Share-Based Payments*, to all stock options granted after November 7, 2002 that vest or settle after December 31, 2009.

Material adjustments to the statement of cash flows

Interest paid and income taxes paid are included in the *Statement of Cash Flows*, whereas they were previously disclosed as supplementary information. Additionally, borrowing costs capitalized in relation to qualifying assets are presented as interest paid in operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

(Unaudited)

Index to the notes to the reconciliations

Notes to the reconciliations

In addition to the adjustments listed below, certain balances have been reclassed from Canadian GAAP in accordance with IFRS.

a. Joint ventures

The Corporation has elected to apply a policy of equity accounting for the Corporation's joint venture entities. Under previous Canadian GAAP joint venture entities were proportionately consolidated.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	**Three Months Ended March 31, 2010**	**Year Ended December 31, 2010**
Decrease in revenue	(5,636)	(22,912)
Decrease in cost of sales:		
Operating expense	1,277	5,584
Depreciation and amortization	1,483	5,928
	(2,876)	(11,400)
Increase in share of profit from equity accounted investees	2,221	9,103
Related effect on income tax expense	718	2,549
Increase in earnings	63	252

Consolidated Statement of Financial Position	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Increase in Investment in equity accounted investees	196,330	194,933	190,739
Decrease in net property, plant and equipment	(84,710)	(84,168)	(82,533)
Decrease in net intangibles	(50,942)	(50,004)	(47,191)
Decrease in goodwill	(65,000)	(65,000)	(65,000)
Related tax effect	4,542	4,522	4,457
Decrease in deficit	220	283	472

(Unaudited)

b. Share-based payments

Stock options

The Corporation grants options to certain employees. These options were accounted for as equity-settled share-based payment under Canadian GAAP. The Corporation was an income fund until October 1, 2010 and the options granted related to units issued by the Corporation. As those units contain a redemption feature, IFRS requires the related options to be accounted for as cash-settled share based payments. Therefore, under IFRS, a liability has been recognized at January 1, 2010 which is remeasured at period end to reflect the fair value of the outstanding options. On October 1, 2010, the Corporation converted from Pembina Pipeline Income Fund to Pembina Pipeline Corporation at which time the options are accounted as equity-settled.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	**Three Months Ended March 31, 2010**	**Year Ended December 31, 2010**
Increase in cost of sales (operating expense)	(84)	(5,932)
Decrease in general and administrative expense	73	119
Decrease in earnings	(11)	(5,813)

Consolidated Statement of Financial Position	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Increase in share-based payment, non-current	(8,695)	(6,404)	
Increase in share capital		(1,774)	(11,190)
Increase (decrease) in contributed surplus	2,992	2,464	(326)
Increase in deficit	(5,703)	(5,714)	(11,516)

Restricted unit ("RSU") plan

Under Canadian GAAP, Pembina recognized payments under its RSU plan as they vest and become due. Under IFRS, grants made under the RSU plan are considered cash-settled, and as such, a liability is incurred for service rendered that is measured at the fair value. Until the liability is settled, the fair value of this liability is remeasured at each reporting date.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	**Three Months Ended March 31, 2010**	**Year Ended December 31, 2010**
Decrease in cost of sales (operating expense)	63	30
Decrease (increase) in general and administrative expense	1,065	(523)
Related effect on income tax expense	(282)	123
Increase (decrease) in earnings	846	(370)

Consolidated Statement of Financial Position	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Increase in trade payables and other	(731)	(2,254)	(164)
Increase in share-based payments, non-current	(4,194)	(1,543)	(5,252)
Related tax effect	1,232	950	1,353
Increase in deficit	(3,693)	(2,847)	(4,063)

(Unaudited)

c. Defined benefit pension plans

Under IFRS, the Corporation recognizes all actuarial gains and losses for its defined benefit pension plans immediately in other comprehensive income. Under previous Canadian GAAP, the Corporation applied the corridor method to these actuarial gains and losses. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were therefore recognized in the deficit. In addition, the unrecognized actuarial gains and losses exceeding the corridor that were recognized in profit or loss for the quarter ending March 31, 2010 and the year ending December 31, 2010 under previous Canadian GAAP were reversed.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	**Three Months Ended March 31, 2010**	**Year Ended December 31, 2010**
Decrease in cost of sales (operating expense)	148	593
Decrease in general and administrative expense	96	380
Related effect on tax expense	(62)	(243)
Increase in earnings	182	730

Consolidated Statement of Financial Position	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Decrease in employee benefits asset, non-current	(19,928)	(19,684)	(25,058)
Decrease in deferred tax liability	4,982	4,920	6,265
Decrease in accumulated other comprehensive income			4,577
Increase in deficit	(14,946)	(14,764)	(14,216)

d. Decommissioning provision (asset retirement obligation)

Consistent with IFRS, the decommissioning provision has been previously measured under Canadian GAAP based on the estimated cost to restore certain property, plant and equipment used in operations, discounted to their net present value upon initial recognition. Under IFRS, the Corporation has estimated the net present value of the obligation discounted using a risk free rate. Under Canadian GAAP, the obligation was discounted using a credit adjusted risk free rate. The transition to IFRS resulted in a $112.9 million increase in the obligation and the deficit as at January 1, 2010. Consequently, for the year ended December 31, 2010, the Corporation recorded increased accretion of $1.3 under IFRS. At December 31, 2010, the Corporation re-measured the asset retirement obligation based on a change in the discount rate from 4.08% to 3.54%, which increased property, plant and equipment and asset retirement obligations by $64.8 million.

(Unaudited)

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	Three Months Ended March 31, 2010	Year Ended December 31, 2010
Decrease (increase) in cost of sales (operating expense)	35	(1,556)
Increase in finance costs (accretion expense)	(465)	(1,304)
Related effect on tax expense	107	715
Decrease to earnings	(323)	(2,145)

Consolidated Statement of Financial Position	January 1, 2010	March 31, 2010	December 31, 2010
Increase in property, plant and equipment	72	107	64,570
Increase in provision	(112,899)	(113,364)	(180,257)
Related tax effect	28,207	28,314	28,922
Increase in deficit	(84,620)	(84,943)	(86,765)

e. Lease reclassification

IFRS classifies a lease as either a finance lease or an operating lease. Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee. Under IFRS, the Corporation is required to classify previously recognized vehicle operating leases as finance leases.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	Three Months Ended March 31, 2010	Year Ended December 31, 2010
Increase in finance costs	(87)	(344)
Decrease in cost of sales (operating expense)	500	2,043
Increase in cost of sales (depreciation and amortization)	(435)	(1,587)
Related effect on tax expense	5	(28)
(Decrease) increase in earnings	(17)	84

Consolidated Statement of Financial Position	January 1, 2010	March 31, 2010	December 31, 2010
Increase in property, plant and equipment	4,405	4,123	4,610
Increase in loans and borrowing, current	(1,901)	(1,857)	(2,074)
Increase in loans and borrowing, non-current	(2,560)	(2,345)	(2,482)
Related tax effect	13	19	(13)
Increase (decrease) in deficit	(43)	(60)	41

(Unaudited)

f. Derivative financial instruments

Interest rate and power derivatives

On transition, the Corporation elected not to apply hedge accounting to its interest rate and power hedge contracts. Future fluctuations in the fair value of these contracts will be accounted for through the statement of comprehensive income. This accounting policy could result in increased volatility for future periods.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	**Three months ended March 31, 2010**	**Year ended December 31, 2010**
Decrease (increase) in net finance costs	272	(3,700)
Related effect on tax expense	(68)	925
Increase (decrease) in earnings	204	(2,775)

Consolidated Statement of Financial Position	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Decrease (increase) in deferred tax liability	5	(3)	
Decrease in other comprehensive income	(4,341)	(4,129)	(7,111)
Increase in deficit	(4,336)	(4,132)	(7,111)

Convertible debentures

On transition to IFRS, the 7.35% convertible debentures have been accounted for as a hybrid instrument because of the redemption feature of the trust units (that the convertible debenture would have been converted into) for the period prior to the conversion to a corporation. The convertible embedded derivative will be fair valued at each reporting period, until the date the Income Fund converted to a corporation. The 7.35% convertible debentures were converted in full prior to December 31, 2010.

The impact arising from the change is summarized as follows:

Consolidated Statement of Comprehensive Income	**Three Months Ended March 31, 2010**	**Year Ended December 31, 2010**
Decrease (increase) in finance costs	15	(63)
Increase (decrease) in earnings	15	(63)

Consolidated Statement of Financial Position	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Increase in derivative financial instrument liability	(150)	(135)	
Increase in share capital			(213)
Increase in deficit	(150)	(135)	(213)

g. Employee benefit provision

A vacation accrual for the accumulated compensated absence has been recognized, increasing trade payables at January 1, 2010 by $727 thousand with an offset to the deficit. The accrual is re-estimated at December 31, 2010 with an additional increase in trade payables and a subsequent increase in general and administrative expenses of $57 thousand.

(Unaudited)

h. Income tax

The above changes decreased (increased) the deferred tax liability based on a tax rate of 25%:

	Note	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Joint ventures	a	4,542	4,520	4,457
Share based payments	b	1,231	948	1,354
Defined benefit pension plans	c	4,982	4,922	6,265
Decommissioning provisions	d	28,207	28,314	28,922
Lease reclassification	e	14	20	(14)
Derivative financial instruments	f	5	(3)	
Employee benefit provision		182	182	196
Income tax	h	(19,132)	(18,995)	(19,860)
Decrease in deferred tax liability		20,031	19,908	21,320

The effect on the statement of comprehensive income for the year ended December 31, 2010 was to decrease the previously reported tax charge for the period by $558 thousand.

In addition to the impact of the IFRS adjustments, the Corporation recognized a rate change on trust level deductions at January 1, 2010, and a subsequent $668.4 thousand decrease to deferred tax liability. The adjustment was reversed on conversion to a Corporation on October 1, 2010.

The Corporation also recognized a deferred tax liability of $19.8 million relating to the cost of service agreement on transition to IFRS with an offsetting increase to the deficit.

i. Deficit

The above changes increased (decreased) deficit (each net of related tax) as follows:

	Note	**January 1, 2010**	**March 31, 2010**	**December 31, 2010**
Joint ventures	a	220	283	472
Share based payments, stock options	b	(5,703)	(5,714)	(11,516)
Share based payments, RSU	b	(3,693)	(2,847)	(4,063)
Defined benefit pension plan	c	(14,946)	(14,764)	(14,216)
Decommissioning provision	d	(84,620)	(84,943)	(86,765)
Lease reclassification	e	(43)	(60)	41
Derivative financial instruments	f	(4,336)	(4,132)	(7,111)
Convertible debentures	f	(150)	(135)	(213)
Employee benefit provision		(545)	(545)	(587)
Deferred tax	h	(19,132)	(18,995)	(19,860)
Increase in deficit		(132,948)	(131,852)	(143,818)

(Unaudited)

CORPORATE INFORMATION

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STOCK EXCHANGE

Pembina Pipeline Corporation
Common shares listed on the TSX
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5.75% convertible debentures symbol PPL.DB.C

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