

Implementation of Financial Resources Plan  
Pembina Energy Services Inc.  
NEB File OF-Gen-06 FRR

In its letter dated March 29, 2019, the National Energy Board (“NEB” or “Board”) directed *non-major oil pipeline* companies to submit a Financial Resources Plan for assessment as it relates to the financial resource requirements in the *National Energy Board Act* (the “Act”).

Pembina Energy Services Inc.’s Financial Resources Plan is outlined below. The following assessment describes the types and amount of financial resources available, key terms and timing of access for each financial resource in order to respond to a release from a pipeline.

Pembina Energy Services Inc. intends to place reliance on the resources of its parent, Pembina Pipeline Corporation (“Pembina”), to support its Financial Resources Plan. To support this submission, a corporate structure diagram (Appendix A) is included as well as a \$50 million Parental Guarantee (Appendix B), in draft form until approved by the NEB, from Pembina to Pembina Energy Services Inc. The Parental Guarantee is the mechanism to provide access to Pembina’s financial resources to support Pembina Energy Services Inc. absolute liability and readily available cash requirements. Of note, Pembina’s Treasury Operations function is centralized in Calgary, Alberta and is responsible for ensuring appropriate funding, cash management and liquidity across all of Pembina’s corporate entities.

Table 1: Financial Resources Plan

Authorization Holder Name		Pembina Energy Services Inc.			
Capacity Risk Value (Classification)		Gas Class 2			
Absolute Liability Limit		\$50,000,000			
As at December 31, 2018 <sup>(1)</sup>					
Note	Financial Resource Type	Pembina Pipeline Corporation	Pembina Energy Services Inc.	Total	Timing of Access (business days)
1	Cash and cash equivalents	\$157 million		\$157 million	Same day
2	Line of Credit (Revolver) (undrawn portion)	\$2,195 million		\$2,195 million	1 to 3 business days
	<b>Total Short-Term</b>	<b>\$2,352 million</b>		<b>\$2,352 million</b>	
3	Insurance	\$700 million		\$700 million	See Note 3
4	Parent Guarantee		\$50 million <sup>(2)</sup>	\$50 million	See Note 4
	<b>Total Other</b>	<b>\$700 million</b>	<b>\$50 million</b>	<b>\$750 million</b>	

(1) Only applicable to the financial resources of Pembina

(2) For illustrative purposes; in effect on July 11, 2019

Notes:

1. Cash and cash equivalents

Pembina maintains cash and cash equivalents associated with its ongoing business requirements where a portion of these monies are available to immediately fund emergency response operations for Pembina and its wholly owned subsidiaries, including Pembina Energy Services Inc. Pembina reported on its 2018 Annual Report, cash and cash equivalents on its Consolidated Statements of Financial Position of \$157 million (March 31, 2019: \$172 million) which can be accessed upon the same day notice.

2. Lines of Credit

Pembina has a \$2.5 billion senior unsecured revolving credit facility (“credit facility”) issued from a syndicate of lenders, including the top five schedule I Canadian banks. The credit facility matures in May 2023 and Pembina expects to maintain a credit facility tenor of between two and five years and actively renews its credit facility to maintain this maturity profile. As at December 31, 2018, Pembina had \$2.2 billion (March 31, 2019: \$2.2 billion)

undrawn on the credit facility. Funds are available on demand and at its sole discretion upon one business day notice for Bankers' Acceptances or prime rate draws and three banking days' notice for London Interbank Offered Rate (LIBOR) draws.

### 3. Insurance

Pembina Energy Services Inc. is covered under a \$700 million consolidated general liability insurance program maintained by Pembina and therefore insurance funds are available for events covered under the policy. The \$700 million limit represents current year coverage, which is reviewed and renewed on an annual basis and subject to insurance market conditions that may affect the coverage available. A certificate of insurance is enclosed. See Appendix C for the insurance providers' A.M. Best Ratings.

The insurance coverage available for Pembina is to provide the impacted entity with eventual recoveries of monies it has paid because of its legal liability for direct third-party bodily injury and property damage caused by the release and that financial recovery can extend over a period of months and years.

### 4. Parent Guarantee

Pembina plans to issue a parental guarantee to Pembina Energy Services Inc. for \$50 million to provide for access to the funds noted in the Financial Resources Plan. The parental guarantee will comply with the requirements noted in the Pipeline Financial Requirements Guidelines. Please see Appendix B for a draft of the proposed parental guarantee.

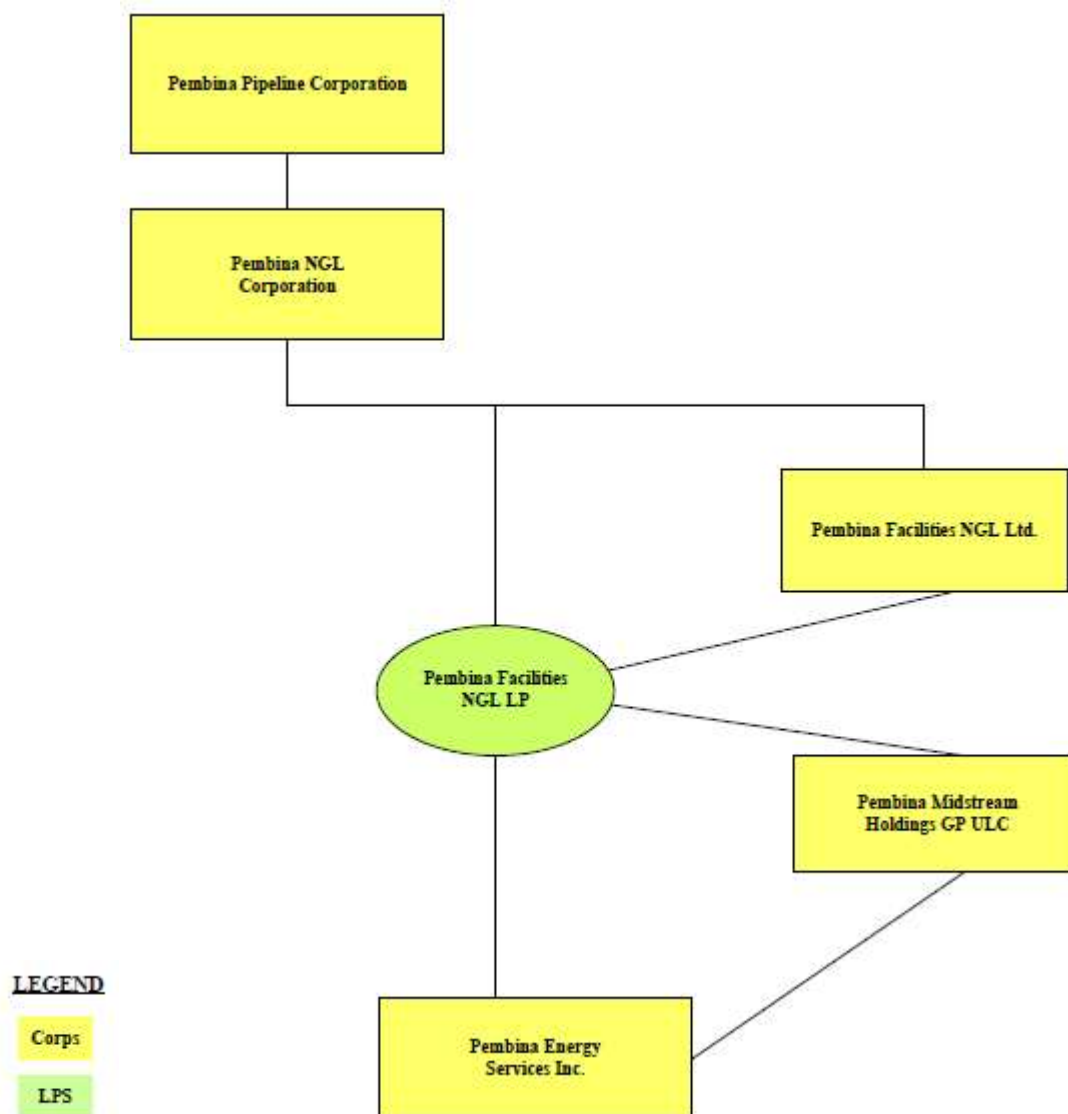
Pembina will ensure that there are sufficient financial resources available to respond to a pipeline release as outlined in the financial resources plan above.

Pembina remains well positioned in the marketplace to be able to continue to access the capital markets on an ongoing basis to fund its operations including the financial capacity to backstop potential obligations in the context of those arising from the Act. Over the past five years, Pembina has generated \$6.4 billion in cash flow from operating activities, raised \$5.3 billion in the debt capital markets, \$1.8 billion in preferred shares, \$6.7 billion in equity (includes DRIP proceeds and share exchange) to support a \$15 billion capital program and acquisitions and \$3.9 billion in dividends to its shareholders.

On April 3, 2019, Pembina closed a \$800 million senior unsecured medium-term note offering. The public note offering was conducted in two tranches consisting of \$400 million in senior unsecured medium-term notes, series 12 having a fixed coupon of 3.62% per annum, paid semi-annually, and maturing on April 3, 2029, and \$400 million in senior unsecured medium-term notes, series 13 having a fixed coupon of 4.54% per annum, paid semi-annually, and maturing on April 3, 2049. Proceeds from the transactions were used to repay drawn amounts on its credit facility, for use for Pembina's capital program and for general corporate purposes. Currently, Pembina's credit facility is undrawn where the entire \$2.5 billion credit capacity is available. Pembina's most recent audited financial statements, as well as its unaudited quarterly financial statement from Q1 2019, are enclosed.

Pembina is rated by two ratings agencies, DBRS Limited ("DBRS") and Standard & Poor's ("S&P") and maintains its targeted BBB credit rating. DBRS rates Pembina's senior unsecured notes and senior unsecured medium-term notes 'BBB' and Class A Preferred Shares Pfd-3. S&P's long-term corporate credit rating on Pembina is 'BBB' and its rating of the Class A Preferred Shares is P-3 (High). Enclosed are Pembina's most recent credit ratings reports.

Appendix A – Corporate Structure Diagram



\*Pembina Energy Services Inc. is an indirectly held wholly owned subsidiary of Pembina Pipeline Corporation

## GUARANTEE

This Guarantee is made and given the **11<sup>th</sup>** day of **July, 2019**, by **Pembina Pipeline Corporation** (the "**Guarantor**") in favour of **Her Majesty the Queen in Right of Canada as represented by the National Energy Board or any successor administrative body** (the "**Beneficiary**").

Guarantor enters into this Guarantee in consideration of Beneficiary and **Pembina Energy Services Inc.** (the "**Counterparty**"), an affiliate of Guarantor, having entered into, now or in the future, certain agreements related to the purchase, sale, or exchange of crude oil, hydrocarbons, liquefied petroleum gases, natural gas liquids, condensate or other similar products, whether pursuant to a buy/sell agreement, terminalling services agreement or otherwise (collectively, the "**Agreement**"). Guarantor acknowledges the benefit to it of the Agreement between Beneficiary and Counterparty. In this regard:

1. Guarantor hereby irrevocably and unconditionally guarantees to Beneficiary the prompt payment when due (subject to a written demand by Beneficiary upon Guarantor) of the financial obligations for which the Counterparty becomes liable under s. 48.12 of the National Energy Board Act and related regulations, as amended from time-to-time, in relation to an unintended or uncontrolled release of oil, gas or other commodity from the Counterparty's pipeline prior to the termination of this Guarantee as set forth in Section 3 (the "**Guaranteed Obligations**"). This Guarantee shall continue to be effective or reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations are annulled, set aside, invalidated, declared to be fraudulent or preferential, rescinded, or must otherwise be returned, refunded or repaid by Beneficiary upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Counterparty or any other guarantor, or upon, or as a result of, the appointment of a receiver, intervener or conservator of, or trustee or similar officer for, Counterparty or any other guarantor or any substantial part of its property or otherwise, all as though such payment or payments had not been made.
2. Notwithstanding anything to the contrary in this Guarantee, the aggregate of Guarantor's obligations hereunder shall not exceed **CDN \$50,000,000 (Fifty million Canadian dollars)**; provided that, in addition Guarantor agrees to pay on demand any and all costs, including reasonable legal fees, and other expenses incurred by Beneficiary in enforcing Guarantor's payment obligations under this Guarantee; provided further, that the Guarantor shall not be liable for any expenses of Beneficiary if no payment under this Guarantee is due and, except to the extent specifically provided in the Agreement, in no event shall the Guarantor be liable for any consequential or indirect damages or lost profits.
3. Subject to section 4, this Guarantee shall remain in full force and effect until the earlier of (i) all Guaranteed Obligations are satisfied in full or are otherwise extinguished in accordance with the terms of the Agreement, (ii) **July 11, 2020** (the "**Expiry Date**") or (iii) thirty (30) days following Guarantor's notice, in writing, to Beneficiary of Guarantor's termination of this Guarantee provided
  - (a) Beneficiary consents to such termination;
  - (b) the expiration or termination of this Guarantee as set forth above shall not affect Guarantor's obligations hereunder that arose prior to such expiration or termination.

Upon the expiration or termination of this Guarantee, at the request of the Guarantor, Beneficiary shall execute a release of this Guarantee.

4. This Guarantee will automatically renew for successive one (1) year terms following the Expiry Date until the Counterparty has secured any necessary alternate form of financial resource required by the Beneficiary to support the Counterparty's pipeline undertaking and the Beneficiary has approved that alternate form.
5. Guarantor's payments hereunder shall be made to Beneficiary within five (5) business days after receiving written demand for payment from Beneficiary, which written demand shall set forth the relevant payment instructions to Guarantor.
6. Guarantor hereby waives notice of: (i) acceptance of this Guarantee by Beneficiary; (ii) notice of the creation or existence of any Guaranteed Obligations and the modification or amendment of the Agreement, including renewal or extension of time for repayment and performance of Guaranteed Obligations; (iii) any requirement that suit be brought against, or any other action be taken by Beneficiary against, or any notice of default or other notice be given to, or any demand be made on, Counterparty; and (iv) presentment, demand for payment, default, dishonour, protest or notice of protest with respect to any notes, drafts or other instruments evidencing indebtedness, received from Counterparty pursuant to the Agreement.
7. Guarantor agrees that Beneficiary may, from time to time, extend the time of payment of the whole, or any part, of the indebtedness of Counterparty pursuant to the Agreement and may receive and accept notes, bills, checks, trade acceptances and other instruments for the payment of money made, accepted or delivered by Counterparty and any other person or persons pursuant to the Agreement, as well as extensions or renewals thereof, without in any way releasing or discharging Guarantor from its obligations hereunder.
8. This Guarantee is a guarantee of payment and not of collection. Beneficiary shall not be required to proceed first against Counterparty or any other person, firm or corporation before resorting to Guarantor for payment under this Guarantee.
9. Demands on Guarantor for payment under this Guarantee shall be in writing and delivered by registered mail or e-mail to the following address:

Pembina Pipeline Corporation  
4000, 585 – 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 1G1  
Attention: Vice President, Legal and General Counsel  
E-mail: credit@pembina.com

All demands for payment shall be effective when received by Guarantor. Guarantor may change the address to which demands for payment are to be sent upon written notice to Beneficiary.

10. Upon payment in full of the Guaranteed Obligations, Guarantor shall be subrogated to the rights of Beneficiary against Counterparty in respect of the Guaranteed Obligations, and Beneficiary agrees to take, at Guarantor's expense, such steps as Guarantor may reasonably request to effect such subrogation.
11. This Guarantee and each of its provisions may be waived, varied, released, modified or surrendered, in whole or in part, only by a written instrument signed by Beneficiary and Guarantor. No failure or delay by Beneficiary in exercising its rights or remedies under this Guarantee, subject to applicable limitation periods, shall operate as a waiver thereof, nor shall any single or partial exercise by Beneficiary of any right or remedy hereunder preclude any other or future exercise of any right or remedy hereunder.
12. Neither Guarantor nor Beneficiary shall transfer or assign their respective rights or obligations under this Guarantee to any other person without the express written consent of the other party.

13. This Guarantee shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein, without regard to principles of conflicts of laws. Guarantor and Beneficiary agree that any action or proceeding to enforce or arising out of this Guarantee shall be commenced in the courts in the Province of Alberta (the "**Forum Courts**"), but nothing herein shall limit Beneficiary's right to initiate legal proceedings in any other court of competent jurisdiction to enforce a judgment of the Forum Courts. Guarantor and Beneficiary hereby knowingly, voluntarily, and intentionally waive any right to trial by jury in connection with this Guarantee or the transactions related hereto.
14. Guarantor represents and warrants that: (i) Guarantor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has full power, rights, and capacity to enter into, execute and deliver this Guarantee, and to perform its obligations hereunder; and (ii) upon proper execution and delivery thereof, this Guarantee will constitute the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms, subject to bankruptcy, insolvency, reorganization and other laws affecting creditors rights generally and to equitable principles of general applicability.
15. The liability of Guarantor under this Guarantee shall be absolute and unconditional irrespective of:
- (a) any invalidity or unenforceability of, or defect or deficiency in the Agreement or any other documents executed in connection with the Agreement;
  - (b) any modification, extension or waiver of any of the terms of the Agreement;
  - (c) sale, exchange, release or non-perfection of any property standing as security for the Guaranteed Obligations or any liabilities incurred directly or indirectly hereunder or any set-off against any of said liabilities, or any release or amendment or waiver of or consent to departure from any other Guarantee, for all or any of the Guaranteed Obligations;
  - (d) any change in the existence, structure or ownership of Guarantor or Counterparty, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting Counterparty or its assets; or
  - (e) except as provided below, any fact, act, event, or occurrence which might otherwise operate as a legal or equitable defense or discharge of a guarantor with respect to the Guaranteed Obligations, other than payment in full of the Guaranteed Obligations.
- Without limiting the Guarantor's own defenses and rights hereunder, the Guarantor reserves to itself all rights, setoffs, counterclaims and other defenses that Counterparty may have to payment of all or any portion of the Guaranteed Obligations, except for defenses arising from bankruptcy, insolvency, dissolution or liquidation of Counterparty and other defenses expressly waived in this Guarantee.
16. In the event of default of any of the terms or conditions set forth herein, Guarantor shall provide notice of such default, in writing, to Beneficiary within two (2) business days
17. This Guarantee is the entire and only agreement between Guarantor and Beneficiary with respect to the payment of the Guaranteed Obligations. All representations, warranties, covenants, agreements or undertakings heretofore or contemporaneously made, which are not set forth herein, are superseded hereby.

**IN WITNESS WHEREOF**, Guarantor has duly executed this Guarantee this **11th** day of **July, 2019**.

**PEMBINA PIPELINE CORPORATION**

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title:

Appendix C – Insurers’ A.M. Best Rating

<b>Insurance Company</b>	<b>A.M. Best Rating</b>
Zurich Insurance Company Ltd.	A+
Berkley Insurance Company	A+
AIG Insurance Company of Canada	A
Intact Insurance Company	A+
Allianz Global Risks US Insurance Company	A+
Liberty Mutual Insurance Company	A
Aviva Insurance Company of Canada	A
Royal & Sun Alliance Insurance Company of Canada	A (Standard & Poor)
Certain Underwriters at Lloyd’s	A



**Ref. No. 320008087126**

**CERTIFICATE OF INSURANCE**

Aon Reed Stenhouse Inc.  
600 - 3rd Avenue SW  
Suite 1800  
Calgary AB T2P 0G5  
tel 403-267-7010 fax 403-261-0897

Re: Evidence of Insurance

**National Energy Board**  
**Suite 210, 517 10th Ave SW**  
**Calgary, AB T2R 0A8**

Insurance as described herein has been arranged on behalf of the Insured named herein under the following policy(ies) and as more fully described by the terms, conditions, exclusions and provisions contained in the said policy(ies) and any endorsements attached thereto.

**Insured**

Pembina Energy Services Inc.; Pouce Coupe Pipe Line  
Ltd.; Pembina Prairie Facilities Ltd.; Veresen NGL Pipeline  
Inc.  
Suite 4000, 585 - 8th Avenue SW  
Calgary, AB T2P 1G1

**Coverage**

Commercial General Liability	Insurer	Zurich Insurance Company Ltd	
Policy #	CSINT1801516		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Bodily Injury & Property Damage, Each Occurrence \$25,000,000 Products and Completed Operations, Aggregate \$25,000,000 Personal Injury & Advertising Liability \$25,000,000 Tenant's Legal Liability - All Risks \$5,000,000 Non-Owned Automobile Liability \$25,000,000 Contingent Employers Liability \$5,000,000 Includes Blanket Contractual, Cross Liability, Severability of Interests Clauses Self Insured Retention: \$50,000 Each and Every Occurrence except \$2,000,000 Each and Every Pollution Hazard Policy may be subject to a general aggregate and other aggregates where applicable		
Excess Liability Coverage	Insurer	Certain Underwriters At Lloyd's; Berkley Insurance Company	
Policy #	CSINT1800791		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Each Occurrence \$25,000,000 Products and Completed Operations, Aggregate \$25,000,000 General Aggregate (other than Products and Completed Operations) \$25,000,000 In excess of the above scheduled limit(s) Policy may be subject to a general aggregate and other aggregates where applicable		

**THE POLICY CONTAINS A CLAUSE THAT MAY LIMIT THE AMOUNT PAYABLE**  
**OR, IN THE CASE OF AUTOMOBILE INSURANCE,**  
**THE POLICY CONTAINS A PARTIAL PAYMENT OF LOSS CLAUSE**

Excess Liability Coverage	Insurer	Certain Underwriters At Lloyd's; AIG Insurance Company of Canada	
Policy #	CSINT1800793		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Each Occurrence \$100,000,000 Products and Completed Operations, Aggregate \$100,000,000 General Aggregate (other than Products and Completed Operations) \$100,000,000 In excess of the above scheduled limit(s) Policy may be subject to a general aggregate and other aggregates where applicable		
3rd Excess Liability	Insurer	Certain Underwriters At Lloyd's; Zurich Insurance Company Ltd	
Policy #	CSINT1800797		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Each Occurrence \$100,000,000 Products and Completed Operations, Aggregate \$100,000,000 Policy may be subject to a general aggregate and other aggregates where applicable		
4th Excess Liability	Insurer	Certain Underwriters At Lloyd's; Intact Insurance Company	
Policy #	CSINT1800799		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Each Occurrence \$85,000,000 Products and Completed Operations, Aggregate \$85,000,000 Policy may be subject to a general aggregate and other aggregates where applicable		
5th Excess Liability	Insurer	Certain Underwriters At Lloyd's; Berkley Insurance Company	
Policy #	CSINT1800801		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Each Occurrence \$115,000,000 Policy may be subject to a general aggregate and other aggregates where applicable		
6th Excess Liability	Insurer	Allianz Global Risks US Insurance Company	
Policy #	CAL000011185		
Effective	30-Jun-2018	Expiry	30-Jun-2019
Limits of Liability	Each Occurrence \$50,000,000 Policy may be subject to a general aggregate and other aggregates where applicable		

THE POLICY CONTAINS A CLAUSE THAT MAY LIMIT THE AMOUNT PAYABLE  
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THE POLICY CONTAINS A PARTIAL PAYMENT OF LOSS CLAUSE

**Ref. No. 320008087126**

**CERTIFICATE OF INSURANCE**

**7th Excess Liability**

**Insurer**

AIG Insurance Company of Canada; Aviva Insurance Company of Canada; Liberty Mutual Insurance Company; Royal & Sun Alliance Insurance Company of Canada

**Policy #**

CE13087162/1000284592

**Effective**

30-Jun-2018

**Expiry**

30-Jun-2019

**Limits of Liability**

Each Occurrence \$200,000

Policy may be subject to a general aggregate and other aggregates where applicable

THIS CERTIFICATE CONSTITUTES A STATEMENT OF THE FACTS AS OF THE DATE OF ISSUANCE AND ARE SO REPRESENTED AND WARRANTED ONLY TO National Energy Board. OTHER PERSONS RELYING ON THIS CERTIFICATE DO SO AT THEIR OWN RISK.

**Aon Reed Stenhouse Inc.**

Dated : 10-April-2019  
Issued By : Gale, Walter A  
Tel : +14032677894



THE POLICY CONTAINS A CLAUSE THAT MAY LIMIT THE AMOUNT PAYABLE  
OR, IN THE CASE OF AUTOMOBILE INSURANCE,  
THE POLICY CONTAINS A PARTIAL PAYMENT OF LOSS CLAUSE



# FINANCIAL STATEMENTS & NOTES

## MANAGEMENT'S REPORT

The audited consolidated financial statements of Pembina Pipeline Corporation (the "Company" or "Pembina") are the responsibility of Pembina's management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, using management's best estimates and judgments, where appropriate.

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

### *Management's Assessment of Internal Controls over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a - 15(f) and 15d - 15(f) under the Exchange Act and under NI 52-109.

Management, including the CEO and the CFO, has conducted an evaluation of Pembina's internal control over financial reporting based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment as at December 31, 2018, the CEO and CFO have concluded that Pembina's internal control over financial reporting is effective.

Due to its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of Pembina's financial statements would be prevented or detected. Further, the evaluation of the effectiveness of internal control over financial reporting was made as at a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate.

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

KPMG LLP, the independent auditors, have audited the Company's financial statements and the effectiveness of internal control over financial reporting as of December 31, 2018 in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.

*"M. H. Dilger"*  
**M. H. Dilger**  
President and Chief Executive Officer

February 21, 2019

*"J. Scott Burrows"*  
**J. Scott Burrows**  
Senior Vice President and Chief Financial Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Shareholders and the Board of Directors of Pembina Pipeline Corporation

#### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Pembina Pipeline Corporation and subsidiaries (the "Company"), as of December 31, 2018 and 2017, the related consolidated statements of earnings and comprehensive income, changes in equity, and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the financial performance and its cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

#### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.



Chartered Professional Accountants

We have served as the Company's auditor since 1997.

Calgary, Canada  
February 21, 2019

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

### **To the Shareholders and the Board of Directors of Pembina Pipeline Corporation**

#### **Opinion on Internal Control over Financial Reporting**

We have audited Pembina Pipeline Corporation's and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2018 and 2017, the related consolidated statements of earnings and comprehensive income, changes in equity, and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2019 expressed an unqualified opinion on those consolidated financial statements.

#### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting included in Management's Discussion and Analysis. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

February 21, 2019



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31			
(\$ millions)	Note	2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		157	321
Trade receivables and other	7	604	529
Inventory		198	168
Derivative financial instruments	24	54	4
		1,013	1,022
<b>Non-current assets</b>			
Property, plant and equipment	8	14,730	13,546
Investments in equity accounted investees	10	6,368	6,229
Intangible assets and goodwill	9	4,409	4,714
Advances to related parties	28	135	42
Other assets		9	13
		25,651	24,544
<b>Total Assets</b>		<b>26,664</b>	<b>25,566</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	12	803	677
Loans and borrowings	13	480	163
Dividends payable		97	91
Convertible debentures	14	—	93
Contract liabilities	3,18	37	44
Derivative financial instruments	24	6	79
Taxes payable		67	3
		1,490	1,150
<b>Non-current liabilities</b>			
Loans and borrowings	13	7,057	7,300
Decommissioning provision	15	569	546
Contract liabilities	3,18	131	113
Employee benefits, share-based payments and other		74	66
Taxes payable		15	22
Deferred tax liabilities	11	2,774	2,376
Other liabilities		150	152
		10,770	10,575
<b>Total Liabilities</b>		<b>12,260</b>	<b>11,725</b>
<b>Equity</b>			
Attributable to shareholders		14,344	13,781
Attributable to non-controlling interest	6	60	60
<b>Total Equity</b>		<b>14,404</b>	<b>13,841</b>
<b>Total Liabilities and Equity</b>		<b>26,664</b>	<b>25,566</b>
<b>Commitments, Contingencies and Guarantees</b>	29		

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:

"Gordon J. Kerr"  
**Gordon J. Kerr**  
 Director

"Randall J. Findlay"  
**Randall J. Findlay**  
 Director

## CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

For the years ended December 31			
(\$ millions, except per share amounts)	Note	2018	2017
Revenue	3,18	7,351	5,400
Cost of sales		5,457	3,971
(Gain) loss on commodity-related derivative financial instruments		(22)	71
Share of profit from equity accounted investees	10	411	116
<b>Gross profit</b>		<b>2,327</b>	<b>1,474</b>
General and administrative		279	236
Other expense		27	28
<b>Results from operating activities</b>		<b>2,021</b>	<b>1,210</b>
Net finance costs	19	279	185
<b>Earnings before income tax</b>		<b>1,742</b>	<b>1,025</b>
Current tax expense	11	70	48
Deferred tax expense	11	394	94
Income tax expense		464	142
<b>Earnings attributable to shareholders</b>		<b>1,278</b>	<b>883</b>
<b>Other comprehensive (loss) income</b>			
Exchange gain on translation of foreign operations		330	1
Remeasurements of defined benefit liability, net of tax	22	(6)	3
<b>Total comprehensive income attributable to shareholders</b>		<b>1,602</b>	<b>887</b>
<b>Earnings attributable to common shareholders, net of preferred share dividends</b>	21	<b>1,157</b>	<b>803</b>
<b>Earnings per common share – basic (dollars)</b>	21	<b>2.28</b>	<b>1.87</b>
<b>Earnings per common share – diluted (dollars)</b>	21	<b>2.28</b>	<b>1.86</b>
<b>Weighted average number of common shares (millions)</b>			
Basic	21	505	426
Diluted	21	509	432

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$ millions)	Note	Attributable to Shareholders of the Company					Non-controlling interest	Total Equity
		Common share capital	Preferred share capital	Deficit	Accumulated other comprehensive (loss) income	Total		
December 31, 2017	3	13,447	2,424	(2,083)	(7)	13,781	60	13,841
<b>Total comprehensive income</b>								
Earnings		—	—	1,278	—	1,278	—	1,278
<b>Other comprehensive income</b>								
Exchange gain on translation of foreign operations		—	—	—	330	330	—	330
Remeasurements of defined benefit liability, net of tax		—	—	—	(6)	(6)	—	(6)
Total comprehensive income		—	—	1,278	324	1,602	—	1,602
<b>Transactions with shareholders of the Company</b>								
Preferred shares issue costs	16	—	(1)	—	—	(1)	—	(1)
Debenture conversions	16	140	—	—	—	140	—	140
Share-based payment transactions	16	75	—	—	—	75	—	75
Dividends declared – common	16	—	—	(1,131)	—	(1,131)	—	(1,131)
Dividends declared – preferred	16	—	—	(122)	—	(122)	—	(122)
Total transactions with shareholders of the Company		215	(1)	(1,253)	—	(1,039)	—	(1,039)
<b>December 31, 2018</b>		13,662	2,423	(2,058)	317	14,344	60	14,404
December 31, 2016		8,808	1,509	(2,010)	(11)	8,296	—	8,296
<b>Total comprehensive income</b>								
Earnings	3	—	—	883	—	883	—	883
<b>Other comprehensive income</b>								
Exchange loss on translation of foreign operations		—	—	—	1	1	—	1
Remeasurements of defined benefit liability, net of tax		—	—	—	3	3	—	3
Total comprehensive income		—	—	883	4	887	—	887
<b>Transactions with shareholders of the Company</b>								
Common shares issued, net of issue costs	16	4,356	—	—	—	4,356	—	4,356
Preferred shares issued, net of issue costs	16	—	915	—	—	915	—	915
Dividend reinvestment plan	16	148	—	—	—	148	—	148
Debenture conversions	16	73	—	—	—	73	—	73
Share-based payment transactions	16	62	—	—	—	62	—	62
Dividends declared – common	16	—	—	(873)	—	(873)	—	(873)
Dividends declared – preferred	16	—	—	(83)	—	(83)	—	(83)
Total transactions with shareholders of the Company		4,639	915	(956)	—	4,598	—	4,598
Non-controlling interest recognized on Acquisition	6	—	—	—	—	—	60	60
<b>December 31, 2017</b>		13,447	2,424	(2,083)	(7)	13,781	60	13,841

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (\$ millions)	Note	2018	2017
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Earnings	3	1,278	883
Adjustments for:			
Share of profit from equity accounted investees	10	(411)	(116)
Distributions from equity accounted investees	10	622	157
Depreciation and amortization	8,9	417	382
Unrealized gain on commodity-related derivative financial instruments		(73)	(23)
Net finance costs	19	279	185
Net interest paid	19	(259)	(153)
Income tax expense	11	464	142
Taxes paid		(26)	(30)
Share-based compensation expense	23	63	73
Share-based compensation payment		(32)	(22)
Loss on asset disposal		19	12
Net change in contract liabilities		11	41
Other		(13)	—
Change in non-cash operating working capital		(83)	(18)
<b>Cash flow from operating activities</b>	3	<b>2,256</b>	<b>1,513</b>
<b>Financing activities</b>			
Bank borrowings and issuance of debt		1,366	2,542
Repayment of loans and borrowings		(1,998)	(1,279)
Issuance of preferred shares	16	—	400
Issuance of medium term notes	13	700	1,200
Issue costs and financing fees		(8)	(23)
Exercise of stock options		61	46
Dividends paid (net of shares issued under the dividend reinvestment plan)		(1,247)	(781)
<b>Cash flow (used in) from financing activities</b>		<b>(1,126)</b>	<b>2,105</b>
<b>Investing activities</b>			
Capital expenditures		(1,226)	(1,839)
Contributions to equity accounted investees	10	(58)	(7)
Acquisitions		—	(1,338)
Interest paid during construction	19	(35)	(63)
Recovery of assets or proceeds from sale		5	2
Advances to related parties		(84)	(23)
Changes in non-cash investing working capital and other		87	(64)
<b>Cash flow used in investing activities</b>		<b>(1,311)</b>	<b>(3,332)</b>
Change in cash and cash equivalents		(181)	286
Effect of movement in exchange rates on cash held		17	—
Cash and cash equivalents, beginning of year		321	35
<b>Cash and cash equivalents, end of year</b>		<b>157</b>	<b>321</b>

See accompanying notes to the consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Pembina Pipeline Corporation ("Pembina" or the "Company") is a Calgary-based, leading transportation and midstream service provider serving North America's energy industry. The consolidated financial statements include the accounts of the Company, its subsidiary companies, partnerships and any investments in associates and joint arrangements as at and for the year ended December 31, 2018.

Pembina owns an integrated system of pipelines that transport various hydrocarbon liquids and natural gas products produced primarily in western Canada. The Company also owns gas gathering and processing facilities and an oil and natural gas liquids infrastructure, storage and logistics business. Pembina's integrated assets and commercial operations along the majority of the hydrocarbon value chain allow it to offer a full spectrum of midstream and marketing services to the energy sector.

### 2. BASIS OF PREPARATION

#### a. Basis of measurement and statement of compliance

The consolidated financial statements have been prepared on a historical cost basis with some exceptions, as detailed in the accounting policies set out below in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These accounting policies have been applied consistently for all periods presented in these consolidated financial statements.

Certain insignificant comparative amounts have been reclassified to conform to the presentation adopted in the current year.

These consolidated financial statements were authorized for issue by Pembina's Board of Directors on February 21, 2019.

#### b. Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars. All financial information presented in Canadian dollars has been disclosed in millions, except where noted. The assets and liabilities of subsidiaries, and investments in equity accounted investees, whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the foreign exchange rate at the balance sheet date, while revenues and expenses of such subsidiaries are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation of subsidiaries and investments in equity accounted investees with a functional currency other than the Canadian dollar are included in other comprehensive income.

#### c. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on the facts and circumstances and estimates at the date of the consolidated financial statements and affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgments, 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.

The following judgment and estimation uncertainties are those management considers material to the Company's consolidated financial statements:

#### Judgments

##### (i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make judgments about future possible events. The assumptions with respect to

determining the fair value of property, plant and equipment, intangible assets and liabilities acquired, as well as the determination of deferred taxes, generally require the most judgment.

(ii) Depreciation and amortization

Depreciation and amortization of property, plant and equipment and intangible assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Company. Among other factors, these judgments are based on industry standards and historical experience.

(iii) Impairment

Assessment of impairment of non-financial assets is based on management's judgment of whether or not there are sufficient internal or external factors that would indicate that an asset, investment, or cash generating unit ("CGU") is impaired. The determination of a CGU is based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. In addition, management applies judgment to assign goodwill acquired as part of a business combination to the CGU or group of CGUs that is expected to benefit from the synergies of the business combination for purposes of impairment testing. When an impairment test is performed, the carrying value of a CGU or group of CGUs is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use. As such, the asset composition of a CGU or group of CGUs directly impacts both the carrying value and recoverability of the assets included therein.

(iv) Assessment of joint control over joint arrangements

The determination of joint control requires judgment about the influence the Company has over the financial and operating decisions of an arrangement and the extent of the benefits it obtains based on the facts and circumstances of the arrangement during the reporting period. Joint control exists when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Ownership percentage alone may not be a determinant of joint control.

(v) Pattern of revenue recognition

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

(vi) Leases

Management applies judgment to determine if an arrangement contains a lease from both a lessee and lessor perspective. This assessment is based on management's expectations regarding existing and future customers and the nature of the underlying assets.

**Estimates**

(i) Business combinations

Estimates of future cash flows, forecast prices, interest rates, discount rates, cost, market values and useful lives are made in determining the fair value of assets acquired and liabilities assumed. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets, goodwill and deferred taxes in the purchase price equation. Future earnings can be affected as a result of changes in future depreciation and amortization, asset or goodwill impairment.

(ii) Provisions and contingencies

Management uses judgment in determining the likelihood of realization of contingent assets and liabilities to determine the outcome of contingencies. Provisions recognized are based on management's best estimate of the timing, scope and amount of expected future cash outflows to settle the obligation.

Based on the long-term nature of the decommissioning provision, the most significant uncertainties in estimating the provision are the discount and inflation rates used, the costs that will be incurred and the timing of when these costs will occur.

(iii) 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 be applicable to income in the years in which temporary differences are expected to be realized or reversed.

(iv) Depreciation and amortization

Estimated useful lives of property, plant and equipment and intangible assets are based on management's assumptions and estimates of the physical useful lives of the assets, the economic lives, which may be associated with the reserve lives and commodity type of the production area, in addition to the estimated residual value.

(v) Goodwill impairment test

In determining the recoverable amount as part of annual goodwill impairment testing, management uses its best estimates of future cash flows, and assesses discount rates to reflect management's best estimate of a rate that reflects a current market assessment of the time value of money and the specific risks associated with the underlying assets and cash flows.

(vi) Impairment of financial assets

The measurement of financial assets carried at amortized cost includes management's estimates regarding the expected credit losses that will be realized on these financial assets.

(vii) Revenue from contracts with customers

In estimating the contract value, management makes assessments as to whether variable consideration is constrained or not reasonably estimable, such that an amount or portion of an amount cannot be included in the estimate of the contract value. Management's estimates of the likelihood of a customer's ability to use outstanding make-up rights may impact the timing of revenue recognition. In addition, in determining the amount of consideration to be allocated to performance obligations that are not sold on a stand-alone basis, management estimates the stand-alone selling price of each performance obligation under the contract, taking into consideration the location and volume of goods or services being provided, the market environment, and customer specific considerations.

(viii) Fair value of financial instruments

For Level 2 valued financial instruments, management makes assumptions and estimates value based on observable inputs such as quoted forward prices, time value and volatility factors. For Level 3 valued financial instruments, management uses estimates of financial forecasts, expected cash flows and risk adjusted discount rates to measure fair value.

(ix) Employee benefit obligations

An actuarial valuation is prepared to measure the Company's net employee benefit obligations using management's best estimates with respect to longevity, discount rates, compensation increases, market returns on plan assets, retirement and termination rates.

### 3. CHANGES IN ACCOUNTING POLICIES

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

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

#### IFRS 15 *Revenue from Contracts with Customers*

##### a. Transition

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

##### b. Consolidated financial statement impacts

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

The following table presents the impact of adopting IFRS 15 on the Company's Consolidated Statement of Financial Position, Consolidated Statement of Earnings and Comprehensive Income and the Consolidated Statement of Cash Flows for the year ended December 31, 2017 for each of the line items affected.

##### i. Consolidated Statement of Financial Position

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

##### ii. Consolidated Statement of Earnings and Other Comprehensive Income

Year ended December 31, 2017			
(\$ millions)	Previously Reported	Adjustments	Restated
Revenue	5,408	(8)	5,400
Earnings before income tax	1,033	(8)	1,025
Earnings attributable to shareholders	891	(8)	883
Basic earnings per common share	1.89	(0.02)	1.87
Diluted earnings per common share	1.88	(0.02)	1.86

##### iii. Consolidated Statement of Cash Flows

Year ended December 31, 2017			
(\$ millions)	Previously Reported	Adjustments	Restated
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Earnings	891	(8)	883
Net change in contract liabilities	33	8	41
<b>Cash flow from operating activities</b>	<b>1,513</b>	<b>—</b>	<b>1,513</b>



### **c. Accounting policies**

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

#### **Take-or-Pay**

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

The Company satisfies its performance obligations and recognizes revenue for services under take-or-pay commitments when volumes are transported, processed, or stored. Make-up rights may arise when a customer does not fulfill their minimum volume commitment in a certain period, but is allowed to use the delivery of future volumes to meet this commitment. These make-up rights are subject to expiry and have varying conditions associated with them. Under IFRS 15, when contract terms allow a customer to exercise their make-up rights using firm volume commitments, revenue is not recognized until these make-up rights are used, expire, or management determines that it is remote that they will be utilized. If the Company bills a customer for unused service in an earlier period and the customer utilizes available make-up rights, the Company records a refund liability for the amount to be returned to the customer through an annual adjustment process. For contracts where no make-up rights exist, revenue is recognized to take-or-pay levels once Pembina has an enforceable right to payment for the take-or-pay volumes. Make-up rights generally expire within a contract year, and the majority of the related contract years follow the calendar year.

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

For certain arrangements where the customer does not have make-up rights, where the make-up rights have been determined to be insignificant, and for cost of service agreements, revenue is recognized using the practical expedient to recognize revenue in an amount equal to the Company's right to invoice. For these arrangements, the consideration the Company is entitled to invoice in each period is representative of the value provided to the customer. There is no change to how revenue is recognized for these contracts under IFRS 15 compared to IAS 18.

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

#### **Fee-for-Service**

Fee-for-service revenue includes firm contracted revenue that is not subject to take-or-pay commitments and interruptible revenue. The Company satisfies its performance obligations for transportation, gas processing, fractionation, terminalling, and

storage as volumes of product are transported, processed, or stored. Revenue is based on a contracted fee and consideration is variable with respect to volumes. Payment is due in the month following the Company's provision of service.

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

### **Product Sales**

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

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

## **4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

### **a. Basis of consolidation**

#### **i) Business combinations**

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the 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 earnings.

The Company 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.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a separate component of equity. Their share of net income and other comprehensive income is also recognized in this separate component of equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in earnings.

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

#### **ii) Subsidiaries**

Subsidiaries are entities, including unincorporated entities such as partnerships, controlled by the Company. The financial results of subsidiaries are included in the consolidated 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 Company.

#### **iii) Joint arrangements**

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for the relevant financial and operational decisions. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

For a joint operation, the consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the arrangement with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

Joint ventures are accounted for using the equity method of accounting and are initially recognized at cost, or fair value if acquired as part of a business combination. Joint ventures are adjusted thereafter for the post-acquisition change in the Company's share of the equity accounted investment's net assets. The Company's consolidated financial statements include its share of the equity accounted investment's profit or loss and other comprehensive income, until the date that joint control ceases. When the Company'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 Company has an obligation or has made payments on behalf of the investee. Distributions from investments in equity accounted investees are recognized when received.

Acquisition of an incremental ownership in a joint arrangement where the Company maintains joint control is recorded at cost or fair value if acquired as part of a business combination. Where the Company has a partial disposal, including a deemed disposal, of a joint arrangement and maintains joint control, the resulting gains or losses are recorded in earnings at the time of disposal.

#### **iv) Transactions eliminated on consolidation**

Balances and transactions, and any revenue and expenses arising from intersegment transactions, are eliminated in preparing the consolidated financial statements. Gains arising from transactions with investments in equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### **v) Foreign currency**

Transactions in foreign currencies are translated to the Company's functional currency 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 Company's 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. 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.

Gains and losses arising from translation of foreign subsidiaries or investments in equity accounted investees with a functional currency other than the Company's Canadian dollar reporting currency are reflected in other comprehensive income. Asset and liability accounts are translated at the period-end exchange rates while revenues, expenses, gains and losses are translated at the exchange rates in effect at the time of the transaction.

#### **b. 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, and are used by the Company in the management of its short-term commitments.

#### **c. Inventories**

Inventories are measured at the lower of cost and net realizable value and consist primarily of crude oil, NGL and spare parts. The cost of inventories is determined using the weighted average costing method and includes direct purchase costs and when applicable, costs of production, extraction, fractionation, and transportation. Net realizable value is the estimated selling price

in the ordinary course of business less the estimated selling costs. All changes in the value of the inventories are reflected in earnings.

#### **d. Financial instruments**

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company 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 Company initially recognizes loans, receivables, advances to related parties and deposits on the date that they are originated. All other financial assets are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company 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 Company is recognized as a separate asset or liability. On derecognition, the difference between the carrying amount of the financial asset and the consideration received is recognized in earnings.

The Company classifies non-derivative financial assets into the following categories:

##### *Financial assets at amortized cost*

A financial asset is classified in this category if the asset is held within a business model whose objective is to collect contractual cash flows on specified dates that are solely payments of principal and interest. At initial recognition, financial assets at amortized costs are recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are recorded at amortized cost using the effective interest method less any impairment losses.

##### *Financial assets at fair value through other comprehensive income*

A financial asset is classified in this category if the asset is held within a business model whose objective is met by both collecting contractual cash flows and selling financial assets. The Company did not have any financial assets classified as fair value through other comprehensive income during the years covered in these financial statements.

##### *Financial assets at fair value through earnings*

A financial asset is classified in this category if it is not classified as a financial asset at amortized cost or a financial asset at fair value through other comprehensive income, or it is an equity instrument designated as such on initial recognition. At initial recognition, and subsequently, these financial assets are recognized at fair value.

##### **ii) Non-derivative financial liabilities**

The Company initially recognizes financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Non-derivative 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.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. On derecognition, the difference between the carrying value of the liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in earnings.

The Company records a modification or exchange of an existing liability as a derecognition of the financial liability if the terms are substantially different, resulting in a difference of more than 10 percent when comparing the present value of the

remaining cash flows of the existing liability to the present value of the discounted cash flow under the new terms using the original effective interest rate.

If a modification to an existing liability causes a revision to the estimated payments of the liability but is not treated as a derecognition, the Company adjusts the gross carrying amount of the liability to the present value of the estimated contractual cash flows using the instrument's original effective interest rate, with the difference recorded in earnings.

The Company's non-derivative financial liabilities are comprised of the following: bank overdrafts, trade payables and accrued liabilities, taxes payable, dividends payable, loans and borrowings including finance lease obligations, other liabilities and the liability component of convertible debentures.

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

### **iii) Common share capital**

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.

### **iv) Preferred share capital**

Preferred shares are classified as equity because they bear discretionary dividends and do not contain any obligations to deliver cash or other financial assets. Discretionary dividends are recognized as equity distributions on approval by the Company's Board of Directors. Incremental costs directly attributable to the issue of preferred shares are recognized as a deduction from equity, net of any tax effects.

### **v) Compound financial instruments**

The Company's convertible debentures are compound financial instruments consisting of a financial liability and an embedded conversion feature. In accordance with IFRS 9, the embedded derivatives are required to be separated from the host contracts and accounted for as stand-alone instruments.

Debentures containing a cash conversion option allow Pembina to pay cash to the converting holder of the debentures, at the option of the Company. As such, the conversion feature is presented as a financial derivative liability within long-term derivative financial instruments. Debentures without a cash conversion option are settled in shares on conversion, and therefore the conversion feature is presented within equity, in accordance with its contractual substance.

On initial recognition and at each reporting date, the embedded conversion feature is measured at fair value using an option pricing model. Subsequent to initial recognition, any unrealized gains or losses arising from fair value changes are recognized through earnings in the statement of earnings and comprehensive income at each reporting date. If the conversion feature is included in equity, it is not remeasured subsequent to initial recognition. On initial recognition, the debt component, net of issue costs, is recorded as a financial liability and accounted for at amortized cost. Subsequent to initial recognition, the debt component is accreted to the face value of the debentures using the effective interest rate method. Upon conversion, the corresponding portions of the debt and equity are removed from those captions and transferred to share capital.

### **vi) Derivative financial instruments**

The Company holds derivative financial instruments to manage its interest rate, commodity, power costs and foreign exchange risk exposures as well as a cash conversion features on convertible debentures and a redemption 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 meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Derivatives are recognized initially at fair value with attributable transaction costs recognized in earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in non-commodity-

related derivatives are recognized immediately in earnings as part of net finance costs and changes in commodity-related derivatives are recognized immediately in earnings.

#### **e. Property, plant and equipment**

##### **i) Recognition and measurement**

Items of property, plant and equipment are measured initially at cost, unless they are acquired as part of a business combination in which case they are initially measured at fair value. Thereafter, property, plant and equipment are recorded net of accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are 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 may also 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 in earnings.

##### **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 Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized and recorded as depreciation expense. The cost of maintenance and repair expenses of the property, plant and equipment are recognized in earnings as incurred.

##### **iii) Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately. Land and linefill are not depreciated.

Depreciation is recognized in earnings 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.

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

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

#### **f. Intangible assets**

##### **i) Goodwill**

Goodwill that arises upon acquisitions is included in intangible assets and goodwill. See Note 4(a)(i) for the policy on measurement of goodwill at initial recognition.

### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

In respect of investments in equity accounted investees, 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 investment in equity accounted investee.

### **ii) Other intangible assets**

Other intangible assets acquired individually by the Company are initially recognized and measured at cost, unless they are acquired as part of a business combination in which case they are initially measured at fair value. Thereafter, intangible assets with finite useful lives are recorded net of accumulated amortization and accumulated impairment losses.

### **iii) Subsequent expenditures**

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

### **iv) Amortization**

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

Amortization is recognized in earnings over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

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

### **g. Leases**

At inception of an arrangement, the Company 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.

At inception or upon reassessment of the arrangement, the Company 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.

Leases which the Company 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.

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.

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

Payments made under lessee operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are deferred and recognized over the term of the lease.

Payments received under lessor operating leases are recognized in earnings in accordance with the benefit received by the customer.

## **h. Impairment**

### **i) Non-derivative financial assets**

Impairment of financial assets carried at amortized cost is assessed using the lifetime expected credit loss of the financial asset at initial recognition and throughout the life of the financial asset, except for advances to related parties and other assets for which credit risk has not increased significantly since initial recognition, which are assessed at the twelve month expected credit loss of the financial asset at the reporting date.

The Company uses a loss allowance matrix to determine the impairment loss allowance for trade receivables. In determining the loss allowance matrix, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment 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.

Impairment losses are recognized in earnings and reflected as a reduction in the related financial asset.

### **ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventory, 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, 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 annually in connection with the annual goodwill impairment test. An impairment loss is recognized if the carrying amount of an asset or its related 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, CGU or group of CGUs. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into CGUs, the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. CGUs may incorporate integrated assets from multiple operating segments. For the purpose of goodwill impairment testing, CGUs 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 Company'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 has been allocated.

Impairment losses are recognized in earnings. Impairment losses recognized in respect of a CGU (group 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 equity accounted investee is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment is tested for impairment as a single asset when there is objective evidence that the equity accounted investee may be impaired, unless the



equity accounted investee does not generate cash flows that are largely independent of those from other assets of the entity in which case it is combined in a CGU with the related assets.

## **i. 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 earnings 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 due more than twelve 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**

A defined benefit pension plan is a post-employment benefit plan other than a defined contribution plan. The Company'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, less the fair value of any plan assets. The discount rate used to determine the present value is established by referencing market yields on high-quality corporate bonds on the measurement date with cash flows that match the timing and amount of expected benefits.

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 Company, the recognized asset is limited to the present value of economic benefits available in the form of future expenses payable from the plan, 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 Company. An economic benefit is available to the Company 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 earnings immediately.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in earnings.

The Company 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) 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 if the Company 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.

### **iv) Share-based payment transactions**

For equity settled share-based payment plans, the fair value of the 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 earnings.

#### **j. Provisions**

A provision is recognized if, as a result of a past event, the Company 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. Provisions are remeasured at each reporting date based on the best estimate of the settlement amount. The unwinding of the discount rate is recognized as accretion in finance costs.

##### **i) Decommissioning provision**

The Company's activities give rise to certain dismantling, decommissioning, environmental reclamation and remediation obligations at the end of an asset's economic life. 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, based on a risk-free rate, of management's best estimate of what is reasonably expected to be incurred to settle the obligation at the end of an asset's economic life. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion in finance costs whereas increases or decreases due to changes in the estimated future cash flows or risk-free rate are added to or deducted from the cost of the related asset.

#### **k. Revenue**

Accounting policies related to revenue from contracts with customers are disclosed in Note 3 Changes in Accounting Policies.

#### **l. Finance income and finance costs**

Finance income comprises interest income on funds deposited and invested, gains on non-commodity-related derivatives measured at fair value through earnings and foreign exchange gains. Interest income is recognized as it accrues in earnings, using the effective interest rate method.

Finance costs comprise interest expense on loans and borrowings and convertible debentures, accretion on provisions, losses on disposal of available for sale financial assets, losses on non-commodity-related derivatives, impairment losses recognized on financial assets (other than trade and other receivables) and foreign exchange losses.

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

#### **m. Income tax**

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in earnings 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 earnings;
- temporary differences relating to investments in subsidiaries and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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, 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.

In determining the amount of current and deferred tax, the Company takes into account income tax exposures and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

#### **n. Earnings per common share**

The Company presents basic and diluted earnings per common share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. To calculate earnings attributable to common shareholders, earnings are adjusted for accumulated preferred dividends. Diluted EPS is determined by adjusting the earnings 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 earnings relating to the outstanding convertible instruments are added back to earnings for the diluted calculations. The shares issued upon conversion are included in the denominator of per share basic calculations for the date of issue.

#### **o. Segment reporting**

An operating segment is a component of the Company 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 Company's other components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and other Senior Vice Presidents ("SVPs") 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 other SVPs include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### **p. New standards and interpretations not yet adopted**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning after January 1, 2019. These standards have not been applied in preparing these consolidated financial statements.

Those which may be relevant to Pembina are described below:

##### **IFRS 16 Leases**

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Pembina will adopt the new standard on the effective date of January 1, 2019.

IFRS 16 introduces a new lease definition which increases the focus on control of the underlying asset and may change which contracts are identified as leases. In addition, IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. For all identified lessee arrangements, subject to recognition exemptions for short term leases where the term is 12 months or less and leases of low value items (under \$5,000), a right-of-use ("ROU") asset and a lease liability are recognized, representing the right to use the underlying asset and the obligation to make lease payments respectively. For identified lessor arrangements, the accounting remains similar to the current standard with lessors continuing to classify such arrangements as finance or operating leases.

##### *Leases in which Pembina is a lessee*

Pembina has substantially completed the determination of which lessee arrangements are or contain leases. System and new process implementation continue. The initial quantitative impact of applying IFRS 16 has been estimated for lessee accounting, however the disclosed impact may change as Pembina is working through the testing and assessment of controls over its new information technology system as well as finalizing decisions regarding practical expedients. In addition, new guidance and interpretations continue to be released and Pembina's accounting policies are subject to change until Pembina presents its first financial statements that include the date of initial adoption.

A material impact is expected to result from the recognition of new assets and liabilities for rail car, office space and land surface operating lease arrangements. The nature of expenses related to identified lessee arrangements will change as IFRS 16 replaces straight-line operating lease expense with depreciation of right of use assets and interest expense relating to lease liabilities. In addition, cash flow from operating activities will be higher, and cash flow from financing activities will be lower as lease obligation repayments will be reported as financing activities on the Consolidated Statement of Cash Flows. There will be no net impact on cash flows.

Pembina estimates that lease liabilities and ROU assets in excess of \$400 million will be recorded on adoption of IFRS 16.

The Company continues to evaluate if it will elect to apply the practical expedient to account for lease components and non-lease components as a single lease component by class of underlying asset. If this practical expedient were to be selected, it would result in an increase in the ROU asset and lease liability on initial adoption.

The Company does not expect the adoption of IFRS 16 to impact its ability to comply with debt covenants described in Note 13.

### *Leases in which Pembina is a lessor*

Pembina continues to assess certain transportation, storage and other service arrangements to determine if lessor accounting would apply when considering the new lease definition. As these assessments are not yet finalized, the impact of lessor accounting related to these arrangements cannot be determined.

### *Transition*

Pembina intends to adopt IFRS 16 using the modified retrospective approach, which will result in the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings at January 1, 2019 and no restatement of the comparative period. Pembina intends to assess whether all contracts are, or contain, a lease using the IFRS 16 definition and not apply the practical expedient to carry forward lease assessments using existing leases guidance.

### **Conceptual Framework**

In March 2018, the IASB issued a revised Conceptual Framework for Financial Reporting, effective for annual periods beginning on or after January 1, 2020 with early application permitted. The Conceptual Framework sets out the fundamental concepts of financial reporting and is applied to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised Conceptual Framework includes: new concepts on measurement, presentation and disclosure, and derecognition; updated definitions of an asset and a liability and related recognition criteria; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company intends to adopt the revised Conceptual Framework for Financial Reporting on its effective date. The Company is currently evaluating the impact that the standard will have on its earnings and financial position.

## **5. DETERMINATION OF FAIR VALUES**

A number of the Company'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 or transferred from a customer is based on market values when available, income approach and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

### **ii) Intangible assets**

The fair value of intangible assets acquired in a business combination is determined by an active market value or 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 are estimated by reference to independent monthly forward prices, interest rate yield curves, currency rates and quoted market prices per share at the period ends.

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

#### **iv) Non-derivative financial assets and liabilities**

The fair value of non-derivative financial assets and liabilities is determined on initial recognition, on a recurring basis, or for disclosure purposes. Fair values of financial assets at amortized cost are calculated based on the present value of estimated future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair values of financial assets held at fair value are calculated using a probability-weighted income approach based on current market expectations for future cash flows. In respect of 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. For other financial liabilities where market rates are not readily available, a risk adjusted market rate is used which incorporates the nature of the instrument as well as the risk associated with the underlying cash payments.

#### **v) Share-based compensation transactions**

The fair value of employee share options is measured using the Black-Scholes formula on grant date. 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, expected forfeitures 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 share unit award incentive plan and associated distribution units are measured based on the volume-weighted average price for 20 days ending at the reporting date of the Company's shares.

#### **vi) Finance lease assets**

The fair value of finance lease assets is based on market values at the inception date.

## 6. ACQUISITION

On October 2, 2017, Pembina acquired all the issued and outstanding shares of Veresen Inc. ("Veresen") by way of a plan of arrangement (the "Arrangement") for total consideration of \$6.4 billion comprised of \$1.5 billion in cash and 99.466 million common shares valued at \$4.4 billion and series 15, 17 and 19 preferred shares valued at \$522 million. In accordance with the Arrangement, Veresen was amalgamated with Pembina and the outstanding Veresen preferred shares were exchanged for Pembina preferred shares with the same terms and conditions.

The acquisition was accounted for as a business combination using the acquisition method where the acquired tangible and intangible assets and assumed liabilities were recorded at their estimated fair values at the date of acquisition. The purchase price equation was based on assessed fair values as follows:

(\$ millions)	October 2, 2017
<b>Purchase Price Consideration</b>	
Common shares	4,356
Cash	1,522
Preferred shares	522
	6,400
Current assets	303
Investments in jointly controlled businesses	6,115
Property, plant and equipment	612
Intangible assets & other long term assets	175
Goodwill	1,781
Current liabilities	(192)
Long term debt	(993)
Deferred tax liabilities	(1,210)
Decommissioning provision	(10)
Other long term liabilities	(121)
Non-controlling interest	(60)
	6,400

The determination of fair values and the purchase price equation was based upon an independent valuation. The primary drivers that generated goodwill were synergies and business opportunities from the integration of Pembina and Veresen. Upon closing of the Acquisition, Pembina repaid Veresen's revolving credit facility of \$152 million. The recognition of goodwill is not expected to be deductible for tax purposes. The Company recognized \$25 million in acquisition-related expenses in 2017. All acquisition-related expenses were expensed as incurred and included in other expenses in the Consolidated Statement of Earnings and Comprehensive Income.

Revenue generated by the Veresen business for the period from the Acquisition date of October 2, 2017 to December 31, 2017 was \$15 million. Net earnings for the same period were \$111 million. If the acquisition had occurred on January 1, 2017, management estimates that consolidated revenue would have increased an additional \$44 million and consolidated gross profit for the year would have increased an additional \$247 million. In determining these amounts, management assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2017.

During the twelve months ended December 31, 2018 Goodwill and Deferred tax liabilities in the purchase price equation were adjusted by \$7 million, to reflect a reduction of tax losses available for future deduction.

## 7. TRADE RECEIVABLES AND OTHER

As at December 31		
(\$ millions)	2018	2017
Trade receivables from customers	178	178
Other receivables	411	335
Prepayments	16	17
Impairment loss allowance	(1)	(1)
<b>Total trade receivables and other</b>	<b>604</b>	<b>529</b>

## 8. PROPERTY, PLANT AND EQUIPMENT

(\$ millions)	Land and Land Rights	Pipelines	Facilities and Equipment	Cavern Storage and Other	Assets Under Construction	Total
<b>Cost</b>						
Balance at December 31, 2016	218	4,253	5,514	1,089	1,965	13,039
Additions and transfers	70	1,895	1,230	133	(1,428)	1,900
Acquisition (Note 6)	41	448	—	—	123	612
Change in decommissioning provision	—	63	(21)	—	—	42
Disposals and other	—	(9)	(8)	1	(1)	(17)
Balance at December 31, 2017	329	6,650	6,715	1,223	659	15,576
Additions and transfers	12	531	469	231	291	1,534
Change in decommissioning provision	—	(10)	5	19	—	14
Disposals and other	(1)	(7)	(30)	5	(11)	(44)
Balance at December 31, 2018	<b>340</b>	<b>7,164</b>	<b>7,159</b>	<b>1,478</b>	<b>939</b>	<b>17,080</b>
<b>Depreciation</b>						
Balance at December 31, 2016	7	966	575	160	—	1,708
Depreciation	2	136	148	48	—	334
Disposals and other	—	(6)	(2)	(4)	—	(12)
Balance at December 31, 2017	9	1,096	721	204	—	2,030
Depreciation	3	142	164	55	—	364
Disposals and other	—	(17)	(18)	(9)	—	(44)
Balance at December 31, 2018	<b>12</b>	<b>1,221</b>	<b>867</b>	<b>250</b>	<b>—</b>	<b>2,350</b>
<b>Carrying amounts</b>						
Balance at December 31, 2017	320	5,554	5,994	1,019	659	13,546
Balance at December 31, 2018	<b>328</b>	<b>5,943</b>	<b>6,292</b>	<b>1,228</b>	<b>939</b>	<b>14,730</b>

### Property, plant and equipment under construction

Costs of assets under construction at December 31, 2018 totaled \$939 million (2017: \$659 million) including capitalized borrowing costs.

For the year ended December 31, 2018, included in additions and transfers are capitalized borrowing costs related to the construction of new pipelines or facilities amounting to \$35 million (2017: \$63 million), with capitalization rates ranging from 3.86 percent to 4.01 percent (2017: 3.87 percent to 4.39 percent).

### Depreciation

Pipeline assets are depreciated using the straight line method over four to 75 years with the majority of assets depreciated over 40 years. Facilities and equipment are depreciated using the straight line method over four to 75 years with the majority of assets depreciated over 40 years. Other assets are depreciated using the straight line method over three to 40 years with the majority of assets depreciated over 40 years. These rates are established to depreciate remaining net book value over the shorter of their useful lives or economic lives.



## 9. INTANGIBLE ASSETS AND GOODWILL

(\$ millions)	Intangible Assets					Total Goodwill & Intangible Assets
	Goodwill	Purchase and Sale Contracts and Other	Customer Relationships	Purchase Option	Total	
<b>Cost</b>						
Balance at December 31, 2016	2,097	212	488	277	977	3,074
Acquisition (Note 6)	1,774	—	151	—	151	1,925
Additions and other	—	4	(1)	—	3	3
Balance at December 31, 2017	3,871	216	638	277	1,131	5,002
Additions and other	7	11	1	—	12	19
Transfers	—	—	—	(277)	(277)	(277)
Balance at December 31, 2018	<b>3,878</b>	<b>227</b>	<b>639</b>	<b>—</b>	<b>866</b>	<b>4,744</b>
<b>Amortization</b>						
Balance at December 31, 2016	—	127	113	—	240	240
Amortization	—	18	30	—	48	48
Balance at December 31, 2017	—	145	143	—	288	288
Amortization	—	19	28	—	47	47
Balance at December 31, 2018	—	<b>164</b>	<b>171</b>	<b>—</b>	<b>335</b>	<b>335</b>
<b>Carrying amounts</b>						
Balance at December 31, 2017	3,871	71	495	277	843	4,714
Balance at December 31, 2018	<b>3,878</b>	<b>63</b>	<b>468</b>	<b>—</b>	<b>531</b>	<b>4,409</b>

Intangible assets with a finite useful life are amortized using the straight line method over two to 60 years.

The purchase option attributable to the Facilities Division of \$277 million to assume an additional interest in the Younger Facilities was reclassified to property, plant and equipment on exercise of the option effective April 1, 2018.

The aggregate carrying amount of intangible assets and goodwill allocated to each operating segment is as follows:

As at December 31 (\$ millions)	2018			2017 <sup>(1)</sup>		
	Goodwill	Intangible Assets	Total	Goodwill	Intangible Assets	Total
Pipelines Division	<b>1,897</b>	<b>278</b>	<b>2,175</b>	1,891	290	2,181
Facilities Division	<b>541</b>	<b>102</b>	<b>643</b>	540	380	920
Marketing & New Ventures Division	<b>1,440</b>	<b>131</b>	<b>1,571</b>	1,440	153	1,593
Corporate	—	<b>20</b>	<b>20</b>	—	20	20
	<b>3,878</b>	<b>531</b>	<b>4,409</b>	3,871	843	4,714

<sup>(1)</sup> The allocation of goodwill and intangible assets have been restated with comparative operating segments.

### Goodwill Impairment Testing

For the purpose of impairment testing, goodwill is allocated to the Company's operating segments which represents the lowest level within the Company at which the goodwill is monitored for management purposes. As a result of the change in operating segments effective January 1, 2018 as discussed in Note 20, goodwill has been reallocated accordingly. Consistent with the prior year, impairment testing for goodwill was performed as at September 30, 2018. The recoverable amounts were based on their value in use and were determined to be higher than their carrying amounts.

The recoverable amount was determined using the value-in-use model by discounting the future cash flows generated from the continuing use of each operating segment. The calculation of the value in use is based on the following key assumptions:

- Cash flows are projected based on past experience, actual operating results and five years (2017: four years) of the business plan approved by management.

- Long-term growth: cash flows for periods up to 75 years (2017: 75 years) were extrapolated using a constant medium-term inflation, except where contracted, long-term cash flows indicated that no inflation should be applied or a specific reduction in cash flows was more appropriate.
- Pre-tax discount rates were applied in determining the recoverable amount of operating segments. Discount rates were estimated based on past experience, the risk free rate and average cost of debt, targeted debt to equity ratio, in addition to estimates of the specific operating segment's equity risk premium, size premium, projection risk, betas and tax rate.

The following summarizes the key assumptions used in the impairment test:

Operating Segments			
2018 (Percent)	Pipelines Division	Facilities Division	Marketing & New Ventures Division
Pre-tax discount rate	7.60	7.47	13.08
Adjusted inflation rate	1.22	1.61	1.80
Incremental increase in discount rate that would result in carrying value equal to recoverable amount			
Increase in pre-tax discount rate	3.60	4.87	4.75

## 10. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

(\$ millions)	Ownership Interest at December 31		Share of Profit from Equity Investments 12 Months Ended December 31		Investment in Equity Accounted Investees at December 31	
	2018	2017	2018	2017	2018	2017
Alliance	50%	50%	160	40	2,799	2,776
Aux Sable	42.7% - 50%	42.7% - 50%	102	22	480	449
Ruby Pipeline <sup>(1)</sup>	50% <sup>(1)</sup>	50% <sup>(1)</sup>	118	29	1,648	1,516
Veresen Midstream	45.3%	46.3%	26	22	1,324	1,365
Other	50% - 75%	50% - 75%	5	3	117	123
			411	116	6,368	6,229

<sup>(1)</sup> Ownership interest in Ruby is presented as a 50 percent proportionate share with the benefit of a preferred distribution structure. Share of profit from equity accounted investees for Ruby is equal to the preferred interest distribution.

Investments in equity accounted investees include the unamortized excess of the purchase price over the underlying net book value of the investee's assets and liabilities at the purchase date, which is comprised of \$98 million (2017: \$90 million) Goodwill, \$3.0 billion (2017: \$3.1 billion) in property, plant and equipment and intangibles and \$52 million in long-term debt (2017: \$87 million).

The Company has US\$2.6 billion in Investments in Equity Accounted Investees that is held by entities whose functional currency is the US dollar. The resulting foreign exchange gain for the year ended December 31, 2018 of \$295 million (2017: \$16 million) has been included in Other Comprehensive Income.

Distributions received from equity investments for the year ended December 31, 2018 were \$622 million (2017: \$157 million) and are included in Operating Activities in the Consolidated Statement of Cash Flows. Distributions from Alliance are subject to satisfying certain financing conditions including a minimum debt service coverage ratio requirement.

Contributions made to investments in equity accounted investees for the year ended December 31, 2018 were \$58 million (2017: \$7 million) and are included in Investing activities in the Consolidated Statement of Cash Flows.

Summarized combined financial information of equity accounted investees (presented at 100 percent) is as follows:

For the years ended December 31		
(\$ millions)	2018	2017
<b>Net Income and Comprehensive Income</b>		
Revenue	3,605	870
Cost of sales	(1,566)	(377)
General and administrative expense	(171)	(69)
Depreciation and amortization	(511)	(131)
Finance costs and other	(308)	(80)
Net Income and Comprehensive Income	1,049	213
Net income and Comprehensive Income attributable to Pembina	411	116
As at December 31		
(\$ millions)	2018	2017
<b>Balance Sheet</b>		
Current assets	838	763
Non-current assets	11,667	11,420
Current liabilities	908	957
Non-current liabilities	5,262	4,978

On March 29, 2018, Ruby Pipeline, L.L.C., in which Pembina owns a 50 percent preferred interest, amended the maturity date of its US\$203 million 364-Day Term Loan, originally maturing March 30, 2018 to March 28, 2019. The Term Loan will continue to amortize at US\$16 million per quarter (US\$8 million net), beginning March 30, 2018, until a final bullet payment of US\$141 million (US\$70 million net) is payable on the amended maturity date.

On April 20, 2018 Veresen Midstream successfully amended and extended its Senior Secured Credit Facilities which were originally scheduled to mature on March 31, 2020. Under the terms of the amendment and extension reached with a syndicate of lenders, Veresen Midstream increased its borrowing capacity to \$200 million under the Revolving Credit Facility and to \$2.6 billion of availability under the Term Loan A and used the proceeds to repay an existing US\$705 million Term Loan B on April 30, 2018. Other terms and conditions in the facilities were modified to reflect the operating nature of the business including modifying the covenant package and increasing the permitted distributions out of Veresen Midstream. The maturity date of the two debt facilities was extended to April 20, 2022.

## 11. INCOME TAXES

The movements of the components of the deferred tax assets and deferred tax liabilities are as follows:

(\$ millions)	Balance at December 31, 2017	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2018
<b>Deferred income tax assets</b>							
Derivative financial instruments	11	(29)	—	—	—	—	(18)
Employee benefits	7	—	2	—	—	—	9
Share-based payments	21	5	—	—	—	—	26
Provisions	153	3	—	—	—	—	156
Benefit of loss carryforwards	180	(33)	—	(7)	—	13	153
Other deductible temporary differences	56	16	—	—	(4)	—	68
<b>Deferred income tax liabilities</b>							
Property, plant and equipment	(1,361)	(299)	—	—	—	—	(1,660)
Intangible assets	(198)	80	—	—	—	—	(118)
Investments in equity accounted investees	(1,173)	(89)	—	—	—	—	(1,262)
Taxable limited partnership income deferral	(56)	(66)	—	—	—	—	(122)
Other taxable temporary differences	(16)	18	—	—	—	(8)	(6)
<b>Total deferred tax liabilities</b>	<b>(2,376)</b>	<b>(394)</b>	<b>2</b>	<b>(7)</b>	<b>(4)</b>	<b>5</b>	<b>(2,774)</b>

(\$ millions)	Balance at December 31, 2016	Recognized in Earnings	Recognized in Other Comprehensive Income	Acquisition	Equity	Other	Balance at December 31, 2017
<b>Deferred income tax assets</b>							
Derivative financial instruments	20	(9)	—	—	—	—	11
Employee benefits	8	—	(1)	—	—	—	7
Share-based payments	12	9	—	—	—	—	21
Provisions	133	12	—	8	—	—	153
Benefit of loss carryforwards	90	(57)	—	137	—	10	180
Other deductible temporary differences	41	12	—	11	(3)	(5)	56
<b>Deferred income tax liabilities</b>							
Property, plant and equipment	(1,193)	(243)	—	75	—	—	(1,361)
Intangible assets	(150)	(6)	—	(42)	—	—	(198)
Investments in equity accounted investees	(6)	190	—	(1,357)	—	—	(1,173)
Taxable limited partnership income deferral	(25)	4	—	(35)	—	—	(56)
Other taxable temporary differences	(10)	(6)	—	—	—	—	(16)
<b>Total deferred tax liabilities</b>	<b>(1,080)</b>	<b>(94)</b>	<b>(1)</b>	<b>(1,203)</b>	<b>(3)</b>	<b>5</b>	<b>(2,376)</b>

The Company's consolidated statutory tax rate for the year ended December 31, 2018 was 27 percent (2017: 27 percent).

## Reconciliation of effective tax rate

For the years ended December 31 (\$ millions, except as noted)	2018	2017
Earnings before income tax	1,742	1,025
Statutory tax rate	27%	27%
Income tax at statutory rate	470	277
Tax rate changes on deferred income tax balances	(1)	1
Changes in estimate and other	(6)	18
U.S. Tax Reform	—	(166)
Permanent items	1	12
Income tax expense	464	142

The Company's estimate of impact of U.S. Tax Reform may be adjusted in the future based on anticipated regulations or guidance from the US Treasury and the Internal Revenue Service.

## Income tax expense

For the years ended December 31 (\$ millions)	2018	2017
<b>Current tax expense</b>	<b>70</b>	<b>48</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	378	286
Tax rate changes on deferred tax balances	(1)	(191)
Decrease (increase) in tax loss carry forward	17	(1)
Total deferred tax expense	394	94
Total income tax expense	464	142

## Deferred tax items recovered directly in equity

For the years ended December 31 (\$ millions)	2018	2017
Share issue costs	(4)	(3)
Other comprehensive income (loss)	2	(1)
Deferred tax items recovered directly in equity	(2)	(4)

The Company has temporary differences associated with its investments in subsidiaries. At December 31, 2018, the Company has not recorded a deferred tax asset or liability for these temporary differences (2017: nil) as the Company controls the timing of the reversal and it is not probable that the temporary differences will reverse in the foreseeable future.

At December 31, 2018, the Company had US\$221 million (2017: US\$261 million) of U.S. tax losses that will expire after 2030 and \$349 million (2017: \$394 million) of Canadian tax losses that will expire after 2035. The Company has determined that it is probable that future taxable profits will be sufficient to utilize these losses.

## 12. TRADE PAYABLES AND ACCRUED LIABILITIES

As at December 31 (\$ millions)	2018	2017
Trade payables	519	465
Other payables & accrued liabilities	284	212
<b>Total current trade and accrued liabilities</b>	<b>803</b>	<b>677</b>

### 13. LOANS AND BORROWINGS

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

#### Carrying value, terms and conditions, and debt maturity schedule

(\$ millions)	Authorized at December 31, 2018	Nominal interest rate	Year of maturity	Carrying value	
				December 31, 2018	December 31, 2017
Senior unsecured credit facilities <sup>(1)</sup>	3,520	3.2 <sup>(2)</sup>	Various <sup>(1)</sup>	1,305	1,778
Senior unsecured notes – series A	73	5.565	2020	76	—
Senior unsecured notes – series C	200	5.58	2021	199	199
Senior unsecured notes – series D	267	5.91	2019	267	266
Alberta Ethane Gathering System LP senior notes	—	5.565	2020	—	77
Senior unsecured medium-term notes series 1	250	4.89	2021	250	249
Senior unsecured medium-term notes series 2	450	3.77	2022	449	449
Senior unsecured medium-term notes series 3	450	4.75	2043	446	446
Senior unsecured medium-term notes series 4	600	4.81	2044	596	596
Senior unsecured medium-term notes series 5	450	3.54	2025	448	448
Senior unsecured medium-term notes series 6	500	4.24	2027	498	498
Senior unsecured medium-term notes series 7	500	3.71	2026	498	497
Senior unsecured medium-term notes series 8	650	2.99	2024	646	645
Senior unsecured medium-term notes series 9	550	4.74	2047	541	541
Senior unsecured medium-term notes series 10	400	4.02	2028	398	—
Senior unsecured medium-term notes series 11	300	4.75	2048	298	—
Senior unsecured medium-term notes 1A	—	4.00	2018	—	152
Senior unsecured medium-term notes 3A	50	5.05	2022	50	52
Senior unsecured medium-term notes 4A	200	3.06	2019	205	207
Senior unsecured medium-term notes 5A	350	3.43	2021	353	354
Finance lease liabilities and other	—			14	9
Total interest bearing liabilities				7,537	7,463
Less current portion				(480)	(163)
Total non-current				7,057	7,300

<sup>(1)</sup> Pembina's unsecured credit facilities include a \$2.5 billion revolving facility that matures May 2023, \$1.0 billion non-revolving term loan facility that matures March 2021 and a \$20 million operating facility that matures May 2019, which is typically renewed on an annual basis.

<sup>(2)</sup> The nominal interest rate is the weighted average of all drawn credit facilities based on the Company's credit rating at December 31, 2018. Borrowings under the credit facilities bear interest at prime, Bankers' Acceptance, or LIBOR rates, plus applicable margins.

On March 9, 2018, Pembina extended its revolving unsecured credit facility (the "Revolver") to May 31, 2023. Concurrently, Pembina entered into a \$1 billion non-revolving term loan facility (the "Term Loan") for an initial three year term that is pre-payable at the Company's option. The other terms and conditions of the Term Loan, including financial covenants, are substantially similar to Pembina's Revolver.

On March 26, 2018, Pembina closed an offering of \$400 million of senior unsecured Series 10 medium-term notes (the "Series 10 Notes"). The Series 10 Notes have a fixed coupon of 4.02 percent per annum, paid semi-annually, and mature on March 27, 2028. Simultaneously, Pembina closed an offering of \$300 million of senior unsecured Series 11 medium-term notes (the "Series 11 Notes"). The Series 11 Notes have a fixed coupon of 4.75 percent per annum, paid semi-annually, and mature on March 26, 2048.

On April 4, 2018, Pembina entered into a note exchange agreement with AEGS noteholders to exchange AEGS senior notes for unsecured senior notes ("Series A") of Pembina under Pembina's Note Indenture. The Series A fixed coupon remained at 5.565 percent per annum and are non-amortizing with a bullet payment of \$73 million at maturity on May 4, 2020.

On November 22, 2018, Pembina's \$150 million senior unsecured medium term note 1A matured and was fully repaid.

All facilities are governed by specific debt covenants which Pembina was in compliance with at December 31, 2018 (2017: in compliance).

For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 24 *Financial Instruments*.

#### 14. CONVERTIBLE DEBENTURES

(\$ millions, except as noted)	Series F – 5.75%
Conversion price (dollars per share)	\$29.53
Interest payable semi-annually in arrears on:	June 30 and December 31
Maturity Date	December 31, 2018
Balance at December 31, 2016	143
Conversions and redemptions	(52)
Unwinding of discount rate	1
Deferred financing fee (net of amortization)	1
Balance at December 31, 2017	93
Conversions and redemptions	(93)
Repayment at maturity	(2)
Unwinding of discount rate	1
Deferred financing fee (net of amortization)	1
Balance at December 31, 2018	—

On December 31, 2018, Pembina's Series F Convertible Debentures matured. At maturity, the outstanding principal of \$1.6 million plus accrued and unpaid interest was settled in cash.

#### 15. DECOMMISSIONING PROVISION

(\$ millions)	2018	2017
Balance at January 1	551	496
Unwinding of discount rate	12	12
Change in rates	—	43
Acquisition	—	10
Additions	18	33
Change in estimates and other	(8)	(43)
Total	573	551
Less current portion (included in accrued liabilities)	(4)	(5)
Balance at December 31	569	546

The Company applied a 1.8 percent inflation rate per annum (2017: 1.8 percent) and a risk-free rate of 2.3 percent (2017: 2.3 percent) to calculate the present value of the decommissioning provision. Changes in the measurement of the decommissioning provision are added to, or deducted from, the cost of the related asset in property, plant and equipment. When a re-measurement reduction of the decommissioning provision is in excess of the carrying amount of the related asset, the amount is credited to depreciation expense. For the year ended December 31, 2018, \$4 million was credited to depreciation expense (2017: \$4 million).

The decommissioning provision reflects the discounted cash flows expected to be incurred to decommission the Company's pipeline systems, gas processing and fractionation plants, and storage and terminalling hubs, including the addition of environmental reclamation and remediation costs in the current year.

The undiscounted cash flows at the time of decommissioning are calculated using an estimated timing of economic outflows ranging from one to 83 years, with the majority estimated at 50 years. The estimated economic lives of the underlying assets form the basis for determining the timing of economic outflows.

## 16. SHARE CAPITAL

Pembina is authorized to issue an unlimited number of common shares, without par value, Class A Preferred Shares, issuable in series, not to exceed 20 percent of the number of issued and outstanding common shares at the time of issuance of any Class A Preferred Shares and an unlimited number of Class B Preferred Shares. The holders of the common shares are entitled to receive notice of, attend and vote at any meeting of the shareholders of the Company, receive dividends declared and share in the remaining property of the Company upon distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs.

Pembina has adopted a shareholder rights plan ("Plan") as a mechanism designed to assist the board in ensuring the fair and equal treatment of all shareholders in the face of an actual or contemplated unsolicited bid to take control of the Company. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it will be difficult for the board to prepare an adequate response. Such offers may result in shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in Pembina. The Plan discourages the making of any such offers by creating the potential of significant dilution to any offeror who does so. The Plan was reconfirmed at Pembina's 2016 meeting of shareholders and must be reconfirmed at every third annual meeting thereafter. Accordingly, the Plan, with such amendments as the Board of Directors determines to be necessary or advisable, and as may otherwise be required by law, is expected to be placed before Shareholders for approval at Pembina's 2019 annual meeting. A copy of the agreement relating to the current Plan has been filed on Pembina's SEDAR and EDGAR profiles.

### Common Share Capital

<i>(\$ millions, except as noted)</i>	<b>Number of Common Shares (millions)</b>	<b>Common Share Capital</b>
Balance at December 31, 2016	397	8,808
Issued, net of issue costs	99	4,356
Dividend reinvestment plan	4	148
Debenture conversions	2	73
Share-based payment transactions	1	62
Balance at December 31, 2017	503	13,447
Debenture conversions	3	140
Share-based payment transactions	2	75
Balance at December 31, 2018	<b>508</b>	<b>13,662</b>

### Preferred Share Capital

<i>(\$ millions, except as noted)</i>	<b>Number of Preferred Shares (millions)</b>	<b>Preferred Share Capital</b>
Balance at December 31, 2016	62	1,509
Class A, Series 15 Preferred shares issued, net of issue costs	8	178
Class A, Series 17 Preferred shares issued, net of issue costs	6	141
Class A, Series 19 Preferred shares issued, net of issue costs	8	203
Class A, Series 21 Preferred shares issued, net of issue costs	16	393
Balance at December 31, 2017	100	2,424
Preferred Shares issued, net of issue costs	—	(1)
Balance at December 31, 2018	<b>100</b>	<b>2,423</b>

On December 1, 2018, none of the 10 million Cumulative Redeemable Rate Reset Class A Preferred Series 1 shares outstanding were converted into Cumulative Redeemable Floating Rate Class A Preferred Series 2 shares.

On December 7, 2017, Pembina issued 16 million cumulative redeemable minimum rate reset class A Series 21 Preferred Shares for aggregate gross proceeds of \$400 million. The holders of Series 21 Preferred Shares are entitled to receive fixed cumulative dividends at an annual rate of \$1.225 per share, if, as and when declared by the Board of Directors. The dividend



rate will reset on March 1, 2023 and every fifth year thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 3.26 percent, provided that, in any event, such rate shall not be less than 4.90 percent. The Series 21 Preferred Shares are redeemable by the Company at its option on March 1, 2023 and every fifth year thereafter at a price of \$25.00 per share plus accrued and unpaid dividends.

Holders of the Series 21 Preferred Shares have the right to convert their shares into cumulative redeemable floating rate Class A Preferred Shares, Series 22 ("Series 22 Preferred Shares"), subject to certain conditions, on March 1, 2023 and every fifth year thereafter. Holders of Series 22 Preferred Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day government of Canada bond yield plus 3.26 percent, if, as and when declared by the Board of Directors.

On October 2, 2017, in connection with the Acquisition, the outstanding preferred shares of Veresen have been exchanged for Pembina Class A Series 15, 17 and 19 Preferred Shares with the same terms and conditions as the shares previously issued by Veresen. Dividends on the Series 15, 17 and 19 Preferred Shares will continue to be paid on the last business day of March, June, September and December in each year, if, as and when declared by the Board of Directors.

## Dividends

The following dividends were declared by the Company:

For the years ended December 31 (\$ millions)	2018	2017
Common shares		
Common shares \$2.24 per qualifying share (2017: \$2.04)	1,131	873
Preferred shares		
\$1.062500 per qualifying Series 1 preferred share (2017: \$1.062500)	11	11
\$1.175000 per qualifying Series 3 preferred share (2017: \$1.175000)	7	7
\$1.250000 per qualifying Series 5 preferred share (2017: \$1.250000)	12	12
\$1.125000 per qualifying Series 7 preferred share (2017: \$1.125000)	11	11
\$1.187500 per qualifying Series 9 preferred share (2017: \$1.187500)	11	11
\$1.437500 per qualifying Series 11 preferred share (2017: \$1.437500)	10	10
\$1.437500 per qualifying Series 13 preferred share (2017: \$1.437500)	14	14
\$1.116000 per qualifying Series 15 preferred share (2017: \$0.279000)	9	2
\$1.250000 per qualifying Series 17 preferred share (2017: \$0.312500)	8	2
\$1.250000 per qualifying Series 19 preferred share (2017: \$0.312500)	10	3
\$1.200650 per qualifying Series 21 preferred share (2017: nil)	19	—
	122	83

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

On January 7, 2019, Pembina announced that its Board of Directors had declared a dividend of \$0.19 per qualifying common share (\$2.28 annually) in the total amount of \$97 million, payable on February 15, 2019 to shareholders of record on January 25, 2019. Pembina's Board of Directors also declared quarterly dividends for the Company's preferred shares as outlined in the following table:

Series	Record Date	Payable Date	Per Share Amount	Dividend Amount (\$ millions)
Series 1	February 1, 2019	March 1, 2019	\$0.306625	3
Series 3	February 1, 2019	March 1, 2019	\$0.293750	2
Series 5	February 1, 2019	March 1, 2019	\$0.312500	3
Series 7	February 1, 2019	March 1, 2019	\$0.281250	3
Series 9	February 1, 2019	March 1, 2019	\$0.296875	2
Series 11	February 1, 2019	March 1, 2019	\$0.359375	2
Series 13	February 1, 2019	March 1, 2019	\$0.359375	4
Series 15	March 15, 2019	April 1, 2019	\$0.279000	2
Series 17	March 15, 2019	April 1, 2019	\$0.312500	2
Series 19	March 15, 2019	April 1, 2019	\$0.312500	3
Series 21	February 1, 2019	March 1, 2019	\$0.306250	5

On January 30, 2019, Pembina announced that it does not intend to exercise its right to redeem the six million Cumulative Redeemable Rate Reset Class A Preferred Shares, Series 3 ("Series 3 Shares") shares outstanding on March 1, 2019.

On February 6, 2019, Pembina announced that its Board of Directors had declared a dividend of \$0.19 per qualifying common share (\$2.28 annually) in the total amount of \$97 million, payable on March 15, 2019 to shareholders of record on February 25, 2019.

#### DRIP

Pembina suspended its Premium Dividend™ and Dividend Reinvestment Plan ("DRIP"), effective April 25, 2017. Accordingly, the March 2017 dividend was the last dividend with the ability to be reinvested through the DRIP. Shareholders who were enrolled in the program automatically received dividends in the form of cash. If Pembina elects to reinstate the DRIP in the future, shareholders that were enrolled in the DRIP at suspension and remain enrolled at reinstatement will automatically resume participation in the DRIP. Prior to its suspension in 2017 DRIP proceeds were \$148 million.

#### 17. PERSONNEL EXPENSES

For the years ended December 31 (\$ millions)	2018	2017
Salaries and wages	254	194
Share-based compensation expense (Note 23)	63	73
Short-term incentive plan	59	45
Pension plan expense	23	20
Health, savings plan and other benefits	21	18
	420	350

## 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue has been disaggregated into categories to reflect how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors.

### a. Revenue disaggregation

For the years ended December 31 (\$ millions)	2018				2017			
	Pipelines Division	Facilities Division	Marketing & New Ventures Division	Total	Pipelines Division	Facilities Division	Marketing & New Ventures Division	Total
Take-or-Pay <sup>(1)</sup>	979	582	—	1,561	681	534	—	1,215
Fee-for-Service <sup>(1)</sup>	424	103	—	527	324	58	2	384
Product Sales <sup>(2)</sup>	—	464	4,721	5,185	—	208	3,531	3,739
<b>Revenue from contracts with customers</b>	<b>1,403</b>	<b>1,149</b>	<b>4,721</b>	<b>7,273</b>	<b>1,005</b>	<b>800</b>	<b>3,533</b>	<b>5,338</b>
Lease and other revenue	61	17	—	78	62	—	—	62
<b>Total external revenue</b>	<b>1,464</b>	<b>1,166</b>	<b>4,721</b>	<b>7,351</b>	<b>1,067</b>	<b>800</b>	<b>3,533</b>	<b>5,400</b>

<sup>(1)</sup> Revenue recognized over time.

<sup>(2)</sup> Revenue recognized at a point in time.

### b. Contract balances

Significant changes in the contract liabilities balances during the period are as follows:

(\$ millions)	2018	2017
Balance at January 1	157	81
Additions (net in the period)	38	99
Revenue recognized from contract liabilities <sup>(1)</sup>	(27)	(23)
Closing balance	168	157
Less current portion <sup>(2)</sup>	(37)	(44)
Balance at December 31	131	113

<sup>(1)</sup> Recognition of revenue related to performance obligations satisfied in the current period that were included in the opening balance of contract liabilities.

<sup>(2)</sup> As at December 31, 2018, the balance includes \$9 million of cash collected under take-or-pay contracts which will be recognized in revenue by December 31, 2019 as the customer chooses to ship, process, or otherwise forego the associated service (December 31, 2017: \$8 million).

Contract liabilities depict the Company's obligation to perform services in the future for which payment has been received from customers. Contract liabilities include up-front payments or non-cash consideration received from customers for future transportation, processing and storage services. Contract liabilities also include consideration received from customers for take-or-pay commitments where the customer has a make-up right to ship or process future volumes under a firm contract. These amounts are non-refundable should the customer not use its make-up rights.

The Company does not have any contract assets. In all instances where goods or services have been transferred to a customer in advance of the receipt of customer consideration, the Company's right to consideration is unconditional and has therefore been presented as a receivable.

### c. Revenue allocated to remaining performance obligations

Pembina expects to recognize revenue in future periods that includes current unsatisfied remaining performance obligations totaling \$10.6 billion. Over the next five years, this remaining performance obligation will be recognized annually ranging from \$1.1 billion declining to \$962 million. Subsequently, up to 2042, Pembina will recognize from \$1.0 billion to \$7 million per year.

In preparing the above figures, the Company has taken the practical expedient to exclude contracts that are being accounted for using the practical expedient to recognize revenue in an amount equal to the Company's right to invoice, as well as the practical expedient to exclude contracts that have original expected durations of one year or less.

Variable consideration relating to flow through costs are not included in the amounts presented. These flow through costs do not impact net income or cash flow, and due to the long-term nature of the contracts there is significant uncertainty in estimating these amounts. In addition, the Company excludes contracted revenue amounts for assets not yet in-service unless both board of directors approval and regulatory approval for the asset has been obtained.

## 19. NET FINANCE COSTS

For the years ended December 31		
(\$ millions)	2018	2017
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	268	162
Convertible debentures	6	9
Unwinding of discount rate	12	12
Gain in fair value of non-commodity-related derivative financial instruments	(4)	(8)
Loss on revaluation of conversion feature of convertible debentures	—	13
Foreign exchange gain and other	(3)	(3)
Net finance costs	279	185

Net interest paid of \$294 million (2017: \$216 million) includes interest paid during construction and capitalized of \$35 million (2017: \$63 million).

## 20. OPERATING SEGMENTS

Effective January 1, 2018, Pembina's operating segments are organized by three Divisions: Pipelines, Facilities and Marketing & New Ventures.

The Company determines its reportable segments based on the nature of operations and includes three operating segments: Pipelines, Facilities and Marketing & New Ventures.

The Pipelines segment includes conventional, oil sands and transmission pipeline systems and related infrastructure serving various markets and basins across North America.

The Facilities segment includes processing and fractionation facilities and related infrastructure that provide Pembina's customers with natural gas and NGL services and are highly integrated with the Company's other businesses.

The Marketing & New Ventures segment undertakes value-added commodity marketing activities including buying and selling products and optimizing storage opportunities, by contracting capacity on Pembina's and various third-party pipelines and utilizing the Company's rail fleet and rail logistics capabilities. Marketing activities also include identifying commercial opportunities to further develop other Pembina assets. Pembina's Marketing business also includes results from Aux Sable's NGL extraction facility near Chicago, Illinois and other natural gas and NGL processing facilities, logistics and distribution assets in the United States and Canada.

The financial results of the operating segments are included below. Performance is measured based on results from operating activities, net of depreciation and amortization, as included in the internal management reports that are reviewed by the Company's Chief Executive Officer, Chief Financial Officer and other Senior Vice Presidents. These results are 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. Intersegment transactions are recorded at market value and eliminated under corporate and intersegment eliminations.

<b>For the year ended December 31, 2018</b> (\$ millions)	<b>Pipelines Division<sup>(1)</sup></b>	<b>Facilities Division</b>	<b>Marketing &amp; New Ventures Division<sup>(2)</sup></b>	<b>Corporate &amp; Inter-Division Eliminations</b>	<b>Total</b>
Revenue from external customers	1,464	1,166	4,721	—	7,351
Inter-Division revenue	124	302	—	(426)	—
<b>Total revenue<sup>(3)</sup></b>	<b>1,588</b>	<b>1,468</b>	<b>4,721</b>	<b>(426)</b>	<b>7,351</b>
Operating expenses	396	313	—	(158)	551
Cost of goods sold, including product purchases	—	462	4,335	(282)	4,515
Realized loss on commodity-related derivative financial instruments	—	—	51	—	51
Share of profit from equity accounted investees	279	30	102	—	411
Depreciation and amortization included in operations	216	149	26	—	391
Unrealized gain on commodity-related derivative financial instruments	—	—	(73)	—	(73)
<b>Gross profit</b>	<b>1,255</b>	<b>574</b>	<b>484</b>	<b>14</b>	<b>2,327</b>
Depreciation included in general and administrative	—	—	—	26	26
Other general and administrative	26	17	41	169	253
Other expense	—	5	12	10	27
<b>Reportable segment results from operating activities</b>	<b>1,229</b>	<b>552</b>	<b>431</b>	<b>(191)</b>	<b>2,021</b>
Net finance costs	9	6	16	248	279
<b>Reportable segment earnings (loss) before tax</b>	<b>1,220</b>	<b>546</b>	<b>415</b>	<b>(439)</b>	<b>1,742</b>
Capital expenditures	711	348	134	33	1,226
Contributions to equity accounted investees	—	58	—	—	58

<sup>(1)</sup> Pipelines Division transportation revenue includes \$25 million associated with U.S. pipeline sales.

<sup>(2)</sup> Marketing & New Ventures Division includes revenue of \$240 million associated with U.S. midstream sales.

<sup>(3)</sup> During the period, one customer accounted for 10 percent of total revenues, with \$792 million reported throughout all segments.

<b>For the year ended December 31, 2017<sup>(1)</sup></b> (\$ millions)	<b>Pipelines Division<sup>(2)</sup></b>	<b>Facilities Division</b>	<b>Marketing &amp; New Ventures Division<sup>(3)</sup></b>	<b>Corporate &amp; Inter-Division Eliminations</b>	<b>Total</b>
Revenue from external customers	1,067	800	3,533	—	5,400
Inter-Division revenue	69	169	—	(238)	—
<b>Total revenue<sup>(4)</sup></b>	<b>1,136</b>	<b>969</b>	<b>3,533</b>	<b>(238)</b>	<b>5,400</b>
Operating expenses	330	227	—	(107)	450
Cost of goods sold, including product purchases	—	197	3,105	(140)	3,162
Realized loss on commodity-related derivative financial instruments	1	—	93	—	94
Share of profit from equity accounted investees	72	22	22	—	116
Depreciation and amortization included in operations	195	138	26	—	359
Unrealized gain on commodity-related derivative financial instruments	(1)	—	(22)	—	(23)
<b>Gross profit</b>	<b>683</b>	<b>429</b>	<b>353</b>	<b>9</b>	<b>1,474</b>
Depreciation included in general and administrative	—	—	—	23	23
Other general and administrative	20	23	19	151	213
Other (income) expense	(6)	11	1	22	28
<b>Reportable segment results from operating activities</b>	<b>669</b>	<b>395</b>	<b>333</b>	<b>(187)</b>	<b>1,210</b>
Net finance costs	10	12	7	156	185
<b>Reportable segment earnings (loss) before tax</b>	<b>659</b>	<b>383</b>	<b>326</b>	<b>(343)</b>	<b>1,025</b>
Capital expenditures	1,328	440	57	14	1,839
Contributions to equity accounted investees	—	1	6	—	7

<sup>(1)</sup> Restated with comparative segments.

<sup>(2)</sup> Pipelines Division transportation revenue includes \$22 million associated with U.S. pipeline sales.

<sup>(3)</sup> Marketing & New Ventures Division includes revenue of \$215 million associated with U.S. midstream sales.

<sup>(4)</sup> During the period, no one customer accounted for 10 percent or more of total revenue.

## 21. EARNINGS PER COMMON SHARE

### Basic earnings per common share

The calculation of basic earnings per common share at December 31, 2018 was based on the earnings attributable to common shareholders of \$1.2 billion (2017: \$797 million) and a weighted average number of common shares outstanding of 505 million (2017: 426 million).

### Diluted earnings per common share

The calculation of diluted earnings per common share at December 31, 2018 was based on earnings attributable to common shareholders of \$1.2 billion (2017: \$803 million), and weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 509 million (2017: 432 million).

### Earnings attributable to common shareholders

For the years ended December 31 (\$ millions)	2018	2017
Earnings	1,278	883
Dividends on preferred shares	(122)	(83)
Cumulative dividends on preferred shares, not yet declared	(3)	(3)
<b>Basic earnings attributable to common shareholders</b>	<b>1,153</b>	<b>797</b>
Effect of after-tax interest on debentures to earnings	4	6
<b>Diluted earnings attributable to common shareholders</b>	<b>1,157</b>	<b>803</b>

### Weighted average number of common shares

(In millions of shares, except as noted)	2018	2017
Issued common shares at January 1	503	397
Effect of shares issued on Acquisition	—	25
Effect of shares issued on exercise of options	1	—
Effect of conversion of convertible debentures	1	1
Effect of shares issued under dividend reinvestment plan	—	3
<b>Basic weighted average number of common shares at December 31</b>	<b>505</b>	<b>426</b>
Dilutive effect of debentures converted	2	4
Dilutive effect of share options on issue	2	2
<b>Diluted weighted average number of common shares at December 31</b>	<b>509</b>	<b>432</b>
<b>Basic earnings per common share (dollars)</b>	<b>2.28</b>	<b>1.87</b>
<b>Diluted earnings per common share (dollars)</b>	<b>2.28</b>	<b>1.86</b>

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## 22. PENSION PLAN

As at December 31 (\$ millions)	2018	2017
Registered defined benefit net obligation	19	10
Supplemental defined benefit net obligation	12	11
Other accrued benefit obligations	—	1
<b>Net employee benefit obligations</b>	<b>31</b>	<b>22</b>

The Company maintains a defined contribution plan and non-contributory defined benefit pension plans covering its employees. On April 1, 2018, Pembina exercised its option to assume an additional interest in the Younger extraction and fractionation facilities ("Younger Facilities"). Accordingly, Pembina also assumed the Bargaining Unit Pension Plan for

Employees at the Younger Plant ("Younger Plan") with the net obligation of \$6 million. The Company contributes five to 10 percent of an employee's earnings to the defined contribution plan until the employee's age plus years of service equals 50, at which time they become eligible for the defined benefit plans. The Company recognized \$8 million in expense for the defined contribution plan during the year (2017: \$7 million). The defined benefit plans include a funded registered plan for all eligible employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. The defined benefit plans are administered by separate pension funds that are legally separated from the Company. Benefits under the plans are based on the length of service and the annual average best three years of earnings during the last ten years of service of the employee. Benefits paid out of the plans are not indexed. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation was at December 31, 2016. The defined benefit plans expose the Company to actuarial risks such as longevity risk, interest rate risk, and market (investment) risk.

#### Defined benefit obligations

As at December 31 (\$ millions)	2018		2017	
	Registered Plans	Supplemental Plan	Registered Plan	Supplemental Plan
Present value of unfunded obligations	—	12	—	11
Present value of funded obligations	212	—	192	—
Total present value of obligations	212	12	192	11
Fair value of plan assets	193	—	182	—
Recognized liability for defined benefit obligations	(19)	(12)	(10)	(11)

The Company funds the defined benefit obligation plans in accordance with government regulations by contributing to trust funds administered by an independent trustee. The funds are invested primarily in equities and bonds. Defined benefit plan contributions totalled \$19 million for the year ended December 31, 2018 (2017: \$16 million).

The Company has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements of the plans, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. As such, no decrease in the defined benefit asset is necessary at December 31, 2018 (2017: nil).

#### Registered defined benefit pension plan assets comprise

As at December 31 (Percent)	2018	2017
Equity securities	61	65
Debt	39	35
	100	100

#### Movement in the present value of the defined benefit pension obligation

(\$ millions)	2018		2017	
	Registered Plans	Supplemental Plan	Registered Plan	Supplemental Plan
Defined benefits obligations at January 1	192	11	180	10
Benefits paid by the plan	(12)	—	(13)	—
Current service costs	14	1	14	—
Interest expense	7	—	7	—
Transfer from Younger	16	—	—	—
Actuarial losses in other comprehensive income	(5)	—	4	1
Defined benefit obligations at December 31	212	12	192	11

## Movement in the present value of registered defined benefit pension plan assets

(\$ millions)	2018	2017
Fair value of plan assets at January 1	182	164
Contributions paid into the plan	19	16
Benefits paid by the plan	(12)	(13)
Return on plan assets	(13)	8
Transfer from Younger	10	—
Interest income	7	7
Fair value of registered plan assets at December 31	193	182

## Expense recognition in earnings

For the years ended December 31		
(\$ millions)	2018	2017
<b>Registered Plan</b>		
Current service costs	14	14
Interest on obligation	8	7
Expected return on plan assets	(7)	(7)
	15	14

The expense is recognized in the following line items in the consolidated statement of comprehensive income:

For the years ended December 31		
(\$ millions)	2018	2017
<b>Registered Plan</b>		
Operating expenses	8	7
General and administrative expense	7	7
	15	14

Expense recognized for the Supplemental Plan was less than \$1 million for each of the years ended December 31, 2018 and 2017.

## Actuarial gains and losses recognized in other comprehensive income

(\$ millions)	2018			2017		
	Registered Plans	Supplemental Plan	Total	Registered Plan	Supplemental Plan	Total
Balance at January 1	(22)	(1)	(23)	(25)	(1)	(26)
Remeasurements:						
Financial assumptions	3	—	3	(4)	—	(4)
Experience adjustments	—	—	—	1	—	1
Return on plan assets excluding interest income	(9)	—	(9)	6	—	6
Recognized during the period after tax	(6)	—	(6)	3	—	3
Balance at December 31	(28)	(1)	(29)	(22)	(1)	(23)

Principal actuarial assumptions used:

As at December 31		
(weighted average percent)	2018	2017
Discount rate	3.8%	3.6%
Future pension earning increases	4.0%	4.0%



Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined plans are as follows:

As at December 31 (years)	2018	2017
<b>Longevity at age 65 for current pensioners</b>		
Males	21.7	21.7
Females	24.1	24.1
<b>Longevity at age 65 for current member aged 45</b>		
Males	22.8	22.8
Females	25.1	25.1

The calculation of the defined benefit obligation is sensitive to the discount rate, compensation increases, retirements and termination rates as set out above. An increase or decrease of the estimated discount rate of 3.8 percent by 100 basis points at December 31, 2018 is considered reasonably possible in the next financial year but would not have a material impact on the obligation.

The Company expects to contribute \$20 million to the defined benefit plans in 2019.

### 23. SHARE-BASED PAYMENTS

At December 31, 2018, the Company has the following share-based payment arrangements:

#### Share option plan (equity settled)

The Company has a share option plan under which employees are eligible to receive options to purchase shares in the Company.

#### Long-term share unit award incentive plan (cash-settled)

In 2005, the Company established a long-term share unit award incentive plan. Under the share-based compensation plan, awards of restricted ("RSU") and performance ("PSU") share units are made to officers, non-officers and directors. The plan results in participants receiving cash compensation based on the value of the underlying notional shares granted under the plan. Payments are based on a trading value of the Company's common shares plus notional dividends and performance of the Company.

In 2015, the Company also established a deferred share units ("DSU") plan. Under the DSU plan, directors are required to take at least 40 percent of total director compensation, excluding meeting fees, as DSUs. A DSU is a notional share that has the same value as one Pembina common share. Its value changes with Pembina's share price. DSUs do not have voting rights but they accrue dividends as additional DSUs, at the same rate as dividends paid on the Company's common shares. DSUs are paid out when a director retires from the board and are redeemed for cash using the weighted average of trading price of common shares on the Toronto Stock Exchange ("TSX") for the last five trading days before the redemption date, multiplied by the number of DSUs the director holds. As of January 1, 2018 directors no longer receive meeting fees, but their base retainer and committee retainer has been increased.

## Terms and conditions of share option plan and share unit award incentive plan

The terms and conditions relating to the grants of the share option program and the long-term share unit award incentive plans are listed in the tables below:

<b>Grant date share options granted to employees</b> <i>(thousands of options, except as noted)</i>	<b>Number of options</b>	<b>Contractual life of options</b>
March 7, 2017	1,697	7
May 16, 2017	64	7
August 14, 2017	868	7
October 11, 2017	40	7
November 14, 2017	784	7
December 8, 2017	77	7
March 6, 2018	1,993	7
May 14, 2018	310	7
July 10, 2018	424	7
August 15, 2018	961	7
October 10, 2018	94	7
November 13, 2018	939	7
December 31, 2018	34	7

One-third vest on the first anniversary of the grant date, one-third vest on the second anniversary of the grant date and one-third vest on the third anniversary of the grant date.

## Long-term share unit award incentive plan<sup>(1)</sup>

<b>Grant date RSUs, PSUs and DSUs to Officers, Non-Officers<sup>(2)</sup> and Directors</b> <i>(thousands of units, except as noted)</i>	<b>PSUs<sup>(3)</sup></b>	<b>RSUs<sup>(3)</sup></b>	<b>DSUs</b>	<b>Total</b>
January 1, 2017	307	303	32	642
January 1, 2018	404	395	44	843

PSUs vest on the third anniversary of the grant date. RSUs vest one-third on the first anniversary of the grant date, one-third on the second anniversary of the grant date and one-third on the third anniversary of the grant date. Actual units awarded are based on the trading value of the shares and performance of the Company.

<sup>(1)</sup> Distribution Units are granted in addition to RSU and PSU grants based on notional accrued dividends from RSU and PSU granted but not paid.

<sup>(2)</sup> Non-Officers defined as senior selected positions within the Company.

<sup>(3)</sup> Contractual life of 3 years.

## Disclosure of share option plan

The number and weighted average exercise prices of share options as follows:

<i>(thousands of options, except as noted)</i>	<b>Number of Options</b>	<b>Weighted Average Exercise Price (dollars)</b>
Outstanding at December 31, 2016	14,310	\$39.68
Granted	3,530	\$43.28
Exercised	(1,405)	\$33.03
Forfeited	(502)	\$40.58
Expired	(256)	\$47.15
Outstanding at December 31, 2017	15,677	\$40.94
Granted	4,755	\$43.86
Exercised	(1,729)	\$35.34
Forfeited	(523)	\$41.56
Expired	(252)	\$49.2
Outstanding at December 31, 2018	17,928	\$42.12

As of December 31, 2018, the following options are outstanding:

<i>(thousands of options, except as noted)</i> Exercise Price (dollars)	Number outstanding at December 31, 2018	Options Exercisable	Weighted average remaining life
\$26.52 – \$39.14	4,015	2,825	3.65
\$39.15 – \$41.55	4,000	1,690	4.93
\$41.56 – \$43.56	4,216	2,651	4.2
\$43.57 – \$46.00	2,571	285	6.41
\$46.01 – \$52.01	3,126	2,189	3.88
Total	17,928	9,640	4.50

The weighted average market price at the date of exercise for share options exercised in the year ended December 31, 2018 was \$44.97 (2017: \$43.49).

Expected volatility is estimated by considering historic average share price volatility. The weighted average inputs used in the measurement of the fair values at grant date of share options are the following:

### Share options granted

For the years ended December 31		
<i>(dollars, except as noted)</i>	<b>2018</b>	2017
Weighted average		
Fair value at grant date	<b>3.86</b>	4.49
Share price at grant date	<b>43.67</b>	43.13
Exercise price	<b>43.86</b>	43.28
Expected volatility (percent)	<b>20.26</b>	23.5
Expected option life (years)	<b>3.67</b>	3.67
Expected annual dividends per option	<b>2.24</b>	2.04
Expected forfeitures (percent)	<b>6.7</b>	6.1
Risk-free interest rate (based on government bonds)(percent)	<b>2.1</b>	1.2

### Disclosure of long-term share unit award incentive plan

The long-term share unit award incentive plans was valued using the volume weighted average price for 20 days ending December 31, 2018 of \$42.89 (2017: \$44.94). Actual payment may differ from amount valued based on market price and company performance.

## Employee expenses

For the years ended December 31		
(\$ millions)	2018	2017
Share option plan, equity settled	14	16
Long-term share unit award incentive plan	49	57
Share-based compensation expense	63	73
Total carrying amount of liabilities for cash settled arrangements	96	79
Total intrinsic value of liability for vested benefits	57	36

## 24. FINANCIAL INSTRUMENTS

### Financial risk management

Pembina has exposure to counterparty credit risk, liquidity risk and market risk. Pembina recognizes that effective management of these risks is a critical success factor in managing organization and shareholder value.

Risk management strategies, policies and limits ensure risks and exposures are aligned to Pembina's business strategy and risk tolerance. The Company's Board of Directors is responsible for providing risk management oversight at Pembina and oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of this risk framework in relation to the risks faced by the Company. Internal audit personnel assist the Board of Directors in its oversight role by monitoring and evaluating the effectiveness of the organization's risk management system.

### Counterparty credit risk

Counterparty credit risk represents the financial loss the Company may experience if a counterparty to a financial instrument or commercial agreement failed to meet its contractual obligations to Pembina in accordance with the terms and conditions of the financial instruments or agreements with the Company. Counterparty credit risk arises primarily from the Company's cash and cash equivalents, trade and other receivables, advances to related parties, and from counterparties to its derivative financial instruments. The carrying amount of the Company's cash and cash equivalents, trade and other receivables, advances to related parties and derivative financial instruments represents the maximum counterparty credit exposure, without taking into account security held.

The Company manages counterparty credit risk through established credit management techniques, including conducting comprehensive financial and other assessments for all new counterparties and regular reviews of existing counterparties to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits and obtaining financial assurances where warranted. The Company utilizes various sources of financial, credit and business information in assessing the creditworthiness of a counterparty including external credit ratings, where available, and in other cases, detailed financial statement analysis in order to generate an internal credit rating based on quantitative and qualitative factors. The establishment of counterparty exposure limits is governed by a Board of Directors designated counterparty exposure limit matrix which represents the maximum dollar amounts of counterparty exposure by debt rating that can be approved for a counterparty. The Company continues to closely monitor and reassess the creditworthiness of its counterparties, which has resulted in the Company reducing or mitigating its exposure to certain counterparties where it was deemed warranted and permitted under contractual terms.

Financial assurances from counterparties may include guarantees, letters of credit and cash. At December 31, 2018 letters of credit totaling \$122 million (2017: \$110 million) were held primarily in respect of customer trade receivables.

The Company typically has collected its trade receivables in full and at December 31, 2018, 99 percent were current (2017: 96 percent). Management defines current as outstanding accounts receivable under 30 days past due. The Company has a general lien and a continuing and first priority security interest in, and a secured charge on, all of a shipper's petroleum products in its custody.

At December 31, the aging of trade and other receivables was as follows:

Past Due	2018	2017
31-60 days past due	2	6
Greater than 61 days	—	—
	2	6

The Company uses a loss allowance matrix to measure lifetime expected credit losses at initial recognition and throughout the life of the receivable. The loss allowance matrix is determined based on the Company's historical default rates over the expected life of trade receivables, adjusted for forward-looking estimates. Management believes the unimpaired amounts that are past due by greater than 30 days are fully collectible based on historical default rates of customers and management's assessment of counterparty credit risk through established credit management techniques as discussed above.

Advances to related parties held at amortized cost consists of funds advanced by Pembina to a jointly controlled entity. Expected credit losses are measured using a probability-weighted estimate of credit losses, measured as the present value of all expected cash shortfalls, discounted at the effective interest rate of the financial asset, using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Management considers the risk of default relating to the advances to be low due to their priority ranking against other interests, and firm contracted revenues underpinning expected future cash flows from the jointly controlled entity's assets.

At December 31, 2018, the impairment loss allowance amounted to \$1 million (2017: \$1 million). Pembina recognized less than \$1 million in impairment losses on financial assets during 2018 (2017: \$1 million).

The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company believes these measures minimize its counterparty credit risk but there is no certainty that they will protect it against all material losses. As part of its ongoing operations, the Company must balance its market and counterparty credit risks when making business decisions.

### Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The following are the contractual maturities of financial liabilities, including estimated interest payments.

December 31, 2018 (\$ millions)	Outstanding balances due by period					
	Carrying Amount	Expected Cash Flows	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Trade payables and accrued liabilities	803	803	803	—	—	—
Taxes payable	82	82	67	3	4	8
Loans and borrowings	7,537	10,794	724	2,334	1,183	6,553
Dividends payable	97	97	97	—	—	—
Derivative financial liabilities	6	6	6	—	—	—
Finance leases	23	23	9	11	3	—

The Company manages its liquidity risk by forecasting cash flows over a 12 month rolling time period to identify financing requirements. These financing requirements are then addressed through a combination of credit facilities and through access to capital markets, if required.

### Market risk

Pembina's results are subject to movements in commodity prices, foreign exchange and interest rates. A formal Risk Management Program including policies and procedures has been designed to mitigate these risks.

*a. Commodity price risk*

Certain of the transportation contracts or tolling arrangements with respect to Pembina's pipeline assets do not include take-or-pay commitments from crude oil and gas producers and, as a result, Pembina is exposed to throughput risk with respect to those assets. A decrease in volumes transported can directly and adversely affect Pembina's revenues and earnings. The demand for, and utilization of, Pembina's pipeline assets may be impacted by factors such as changing market fundamentals, capacity bottlenecks, operational incidents, regulatory restrictions, system maintenance, weather and increased competition. Market fundamentals, such as commodity prices and price differentials, natural gas and gasoline consumption, alternative energy sources and global supply disruptions outside of Pembina's control can impact both the supply of and demand for the commodities transported on Pembina's pipelines.

Pembina's Marketing business includes activities related to product storage, terminalling, and hub services. These activities expose Pembina to certain risks relating to fluctuations in commodity prices and, as a result, Pembina may experience volatility in revenue and impairments related to the book value of stored product with respect to these activities. Primarily, Pembina enters into contracts to purchase and sell crude oil, condensate, NGL and natural gas at floating market prices; as a result, the prices of products that are marketed by Pembina are subject to volatility as a result of factors such as seasonal demand changes, extreme weather conditions, market inventory levels, general economic conditions, changes in crude oil markets and other factors. Pembina manages its risk exposure by balancing purchases and sales to secure less volatile margins. Notwithstanding Pembina's management of price and quality risk, marketing margins for commodities can vary and have varied significantly from period to period in the past. This variability could have an adverse effect on the results of Pembina's Marketing business and its overall results of operations. To assist in reducing this inherent variability in its Marketing business, Pembina has invested, and will continue to invest, in assets that have a fee-based revenue component.

Pembina is also exposed to potential price declines and decreasing frac spreads between the time Pembina purchases NGL feedstock and sells NGL products. Frac spread is the difference between the sale prices of NGL products and the cost of NGL sourced from natural gas and acquired at prices related to natural gas prices. Frac spreads can change significantly from period to period depending on the relationship between NGL and natural gas prices (the "frac spread ratio"), absolute commodity prices, and changes in the Canadian to U.S. dollar exchange rate. In addition to the frac spread ratio changes, there is also a differential between NGL product prices and crude oil prices which can change margins realized for midstream products. The amount of profit or loss made on the extraction portion of the business will generally increase or decrease with frac spreads. This exposure could result in variability of cash flow generated by the Marketing business, which could affect Pembina and the cash dividends that Pembina is able to distribute.

The Company utilizes financial derivative instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price, interest rate, cost of power and foreign exchange risk. As an example of commodity price mitigation, the Company actively fixes a portion of its exposure to fractionation margins through the use of derivative financial instruments. Additionally, Pembina's Marketing business is also exposed to variability in quality, time and location differentials for various products, and financial instruments may be used to offset the Company's exposures to these differentials. The Company does not trade financial instruments for speculative purposes.

*b. Foreign exchange risk*

Certain of Pembina's cash flows, namely a portion of its commodity-related cash flows, certain cash flows from U.S.-based infrastructure assets, and distributions from U.S.-based investments in equity accounted investees, are subject to currency risk, arising from the denomination of specific cash flows in U.S. dollars. Additionally, a portion of Pembina's capital expenditures, and contributions or loans to Pembina's U.S.-based investments in equity accounted investees, may be denominated in U.S. dollars. Pembina monitors, assesses, and responds to these foreign currency risks using an active risk management program, which may include the exchange of foreign currency for domestic currency at a fixed rate.

c. *Interest rate risk*

Pembina has floating interest rate debt which subjects the Company to interest rate risk. Pembina responds to this risk under its active risk management program to enter into financial derivative contracts to fix interest rates.

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was:

As at December 31 (\$ millions)	2018	2017
<b>Carrying Amounts of Financial Liability</b>		
Fixed rate instruments	6,232	5,685
Variable rate instruments <sup>(1)</sup>	1,305	1,778
	<b>7,537</b>	<b>7,463</b>

<sup>(1)</sup> At December 31, 2018, the Company held no positions in financial derivative contracts to fix interest rates (December 31, 2017: \$100 million).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have (increased) decreased earnings by the amounts shown below. This analysis assumes that all other variables remain constant.

As at December 31 (\$ millions)	2018 ± 100 bp	2017 ± 100 bp
Variable rate instruments	±13	±18
Interest rate swap	±0	±1
Earnings sensitivity (net)	±13	±17

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statements of Financial Position, are as follows:

As at December 31 (\$ millions)	2018				2017			
	Carrying value	Fair Value <sup>(3)</sup>			Carrying value	Fair Value <sup>(3)</sup>		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Financial assets carried at fair value</b>								
Derivative financial instruments	54	—	54	—	4	—	4	—
Advances to related parties	58	—	—	58	—	—	—	—
	<b>112</b>	<b>—</b>	<b>54</b>	<b>58</b>	<b>4</b>	<b>—</b>	<b>4</b>	<b>—</b>
<b>Financial assets carried at amortized cost</b>								
Cash and cash equivalents	157	157	—	—	321	321	—	—
Trade receivables and other	604	604	—	—	529	529	—	—
Advances to related parties	77	—	77	—	42	—	42	—
Other assets	9	—	9	—	13	—	13	—
	<b>847</b>	<b>761</b>	<b>86</b>	<b>—</b>	<b>905</b>	<b>850</b>	<b>55</b>	<b>—</b>
<b>Financial liabilities carried at fair value</b>								
Derivative financial instruments <sup>(1)</sup>	6	—	6	—	79	—	79	—
<b>Financial liabilities carried at amortized cost</b>								
Trade payables and accrued liabilities	803	803	—	—	677	677	—	—
Taxes payable <sup>(1)</sup>	82	82	—	—	25	25	—	—
Dividends payable	97	97	—	—	91	91	—	—
Loans and borrowings <sup>(1)</sup>	7,537	—	7,588	—	7,463	—	7,686	—
Convertible debentures <sup>(2)</sup>	—	—	—	—	93	145	—	—
	<b>8,519</b>	<b>982</b>	<b>7,588</b>	<b>—</b>	<b>8,349</b>	<b>938</b>	<b>7,686</b>	<b>—</b>

<sup>(1)</sup> Carrying value of current and non-current balances.

<sup>(2)</sup> Carrying value excludes conversion feature of convertible debentures.

<sup>(3)</sup> The basis for determining fair value is disclosed in Note 5.

## Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

As at December 31 (percent)	2018	2017
Derivatives	2.2 - 2.3	1.4 - 1.8
Loans and borrowings	2.6 - 5.6	2.0 - 4.7

Fair value of power derivatives are based on market rates reflecting forward curves.

## Fair value hierarchy

The fair value of financial instruments carried at fair value is classified according to the following hierarchy based on the amount of observable inputs used to value the instruments.

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

Pembina does not use Level 1 inputs for any of its fair value measurements.

*Level 2:* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices. Pembina obtains quoted market prices for its inputs from information sources including banks, Bloomberg Terminals and Natural Gas Exchange. The majority of Pembina's significant financial instruments carried at fair value are valued using Level 2 inputs.

*Level 3:* Inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 valuations use unobservable inputs, such as a financial forecast developed using the entity's own data for expected cash flows and risk adjusted discount rates, to measure fair value to the extent that relevant observable inputs are not available. The unobservable inputs reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. In developing unobservable inputs, the entity's own data is used and adjusted for reasonably available information that would be used by other market participants.

Advances to related parties carried at fair value consist of funds advances by Pembina to a jointly controlled entity with an equity conversion option. Fair value is measured on a recurring basis using a valuation model that considers the present value of management's best estimate of future cash flows expected to result from the asset under development in the jointly controlled entity, discounted using a risk-adjusted discount rate.

The following table is a summary of the net derivative financial instruments, which is consistent with the gross balances:

As at December 31 (\$ millions)	2018					2017				
	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	Total	Current Asset	Non-Current Asset	Current Liability	Non-Current Liability	Total
Commodity, power, storage and rail financial instruments	44	—	(2)	—	42	4	—	(31)	—	(27)
Interest rate	—	—	—	—	—	—	—	(2)	—	(2)
Foreign exchange	10	—	(4)	—	6	—	—	—	—	—
Conversion feature of convertible debentures (Note 14)	—	—	—	—	—	—	—	(46)	—	(46)
<b>Net derivative financial instruments</b>	<b>54</b>	<b>—</b>	<b>(6)</b>	<b>—</b>	<b>48</b>	<b>4</b>	<b>—</b>	<b>(79)</b>	<b>—</b>	<b>(75)</b>





The Company maintains a conservative capital structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. The Company funds its operating commitments, short-term capital spending as well as its dividends to shareholders through this cash flow, while new borrowing and equity issuances are primarily reserved for the support of specific significant development activities. The capital structure of the Company consists of shareholder's equity, comprised of common and preferred equity, plus long-term debt. Long-term debt is comprised of bank credit facilities, unsecured notes and finance lease obligations.

Pembina is subject to certain financial covenants in its credit facility agreements and is in compliance with all financial covenants as of December 31, 2018.

Note 16 of these financial statements shows the change in Share Capital for the year ended December 31, 2018.

## 27. GROUP ENTITIES

### Significant subsidiaries

As at December 31 (percentages)	Ownership Interest	
	2018	2017
Pembina Pipeline	100	100
Pembina Gas Services Limited Partnership	100	100
Pembina Oil Sands Pipeline L.P.	100	100
Pembina Midstream Limited Partnership	100	100
Pembina Infrastructure and Logistics L.P.	100	100
Pembina Holding Canada L.P.	100	100
Pembina U.S. Corporation	100	100

## 28. RELATED PARTIES

The Company enters into transactions with related parties in the normal course of business and on terms equivalent to those that prevail in arm's length transactions. The Company advances funds to support operations and provides services to investments in equity accounted investees. A summary of the significant related party transactions are as follows:

### Equity accounted investees

(\$ millions)	2018	2017
<b>For the years ended December 31:</b>		
Services provided	42	8
Interest income	6	1
<b>As at December 31:</b>		
Advances to related parties <sup>(1)</sup>	135	42
Trade receivables and other	12	5

<sup>(1)</sup> Includes \$58 million (2017: \$13 million) in advances to Canada Kuwait Petrochemical Corporation ("CKPC") convertible to shares at the Company's discretion and \$75 million (2017: \$29 million) in advances to Ruby Pipeline, L.L.C.

### Key management personnel and director compensation

Key management consists of the Company's directors and certain key officers.

### Compensation

In addition to short-term employee benefits, including salaries, director fees and short term incentives, the Company also provides key management personnel with share-based compensation, contributes to post employment pension plans and provides car allowances, parking and business club memberships.

Key management personnel compensation comprised:

For the years ended December 31 (\$ millions)	2018	2017
Short-term employee benefits	10	8
Share-based compensation and other	13	7
Total compensation of key management	23	15

## Transactions

Key management personnel and directors of the Company control less than one percent of the voting common shares of the Company (consistent with the prior year). Certain directors and key management personnel also hold Pembina preferred shares. Dividend payments received for the common and preferred shares held are commensurate with other non-related holders of those instruments.

Certain officers are subject to employment agreements in the event of termination without just cause or change of control.

## Post-employment benefit plans

Pembina has significant influence over the pension plans for the benefit of their respective employees. No balance payable is outstanding at December 31, 2018 (December 31, 2017: nil).

## Transactions

(\$ millions)		Transaction value year ended December 31	
Post-employment benefit plan	Transaction	2018	2017
Defined benefit plan	Funding	19	16

## 29. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

Pembina had the following contractual obligations outstanding at December 31, 2018:

Contractual Obligations (\$ millions)	Payments Due By Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years
Leases and other <sup>(1)</sup>	796	118	220	163	295
Loans and borrowings <sup>(2)</sup>	10,794	724	2,334	1,183	6,553
Construction commitments <sup>(3)</sup>	1,001	643	34	19	305
Advances to related parties <sup>(4)</sup>	96	96	—	—	—
Total contractual obligations	12,687	1,581	2,588	1,365	7,153

<sup>(1)</sup> Includes office space, surface land, vehicles and rail car leases.

<sup>(2)</sup> Excluding deferred financing costs. Including interest payments on senior unsecured notes.

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

<sup>(4)</sup> The Company has a contractual commitment to advance \$96 million (US\$70 million) to the Company's jointly controlled investment, Ruby Pipeline, L.L.C. by March 28, 2019.

Pembina enters into product purchase agreements and power purchase agreements to secure supply for future operations. Purchase prices of both NGL and power are dependent on current market prices. Volumes and prices for NGL and power contracts cannot be reasonably determined and therefore an amount has not been included in the contractual obligations schedule. Product purchase agreements range from one to 10 years and involve the purchase of NGL products from producers. Assuming product is available, Pembina has secured between 24 and 105 mbpd each year up to and including 2027. Power purchase agreements range from one to 25 years and involve the purchase of power from electrical service providers. The Company has secured up to 59 megawatts per day each year up to and including 2043.

## **Contingencies**

The Company, its subsidiaries and its investments in equity accounted investees are subject to various legal and regulatory proceedings and actions arising in the normal course of business. We represent our interests vigorously in all proceedings in which we are involved. Legal and administrative proceedings involving possible losses are inherently complex, and we apply significant judgment in estimating probable outcomes. While the outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolutions of such actions and proceedings will not have a material impact on the Company's financial position or results of operations.

## **Guarantees**

The Company has \$69 million (2017: \$26 million) in letters of credit issued to facilitate commercial transactions with third parties and to support regulatory requirements.

The Company has provided guarantees to various third parties in the normal course of conducting business. The guarantees include financial guarantees to counterparties for product purchases and sales, transportation services, utilities, engineering and construction services. The guarantees have not had and are not expected to have a material impact on the Company's financial position, earnings, liquidity or capital resources.

**HEAD OFFICE**

**AUDITORS**

**TRUSTEE, REGISTRAR  
& TRANSFER AGENT**


**STOCK EXCHANGE**

**Toronto Stock Exchange listing symbols for:**

**New York Stock Exchange listing symbol for:**

**INVESTOR INQUIRIES**





Pembina Pipeline Corporation  
[www.pembina.com](http://www.pembina.com)

Building Something Extraordinary





# FINANCIAL STATEMENTS & NOTES

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited)

(\$ millions)	March 31, 2019	December 31, 2018 <sup>(1)</sup>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	172	157
Trade receivables and other	578	604
Inventory	150	198
Derivative financial instruments (Note 13)	11	54
	911	1,013
<b>Non-current assets</b>		
Property, plant and equipment (Note 4)	15,067	14,730
Investments in equity accounted investees (Note 5)	6,307	6,368
Intangible assets and goodwill	4,395	4,409
Right-of-use assets (Note 6)	412	—
Advances to related parties and other assets	125	144
	26,306	25,651
<b>Total assets</b>	<b>27,217</b>	<b>26,664</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Trade payables and other	826	870
Loans and borrowings (Note 7)	471	480
Dividends payable	104	97
Lease liabilities (Note 2)	64	—
Contract liabilities (Note 10)	41	37
Derivative financial instruments (Note 13)	10	6
	1,516	1,490
<b>Non-current liabilities</b>		
Loans and borrowings (Note 7)	7,089	7,057
Lease liabilities (Note 2)	396	—
Decommissioning provision (Note 8)	665	569
Contract liabilities (Note 10)	130	131
Deferred tax liabilities	2,829	2,774
Other liabilities	171	239
	11,280	10,770
<b>Total liabilities</b>	<b>12,796</b>	<b>12,260</b>
<b>Equity</b>		
Attributable to shareholders	14,361	14,344
Attributable to non-controlling interest	60	60
<b>Total equity</b>	<b>14,421</b>	<b>14,404</b>
<b>Total liabilities and equity</b>	<b>27,217</b>	<b>26,664</b>

See accompanying notes to the condensed consolidated Interim Financial Statements

<sup>(1)</sup> Pembina has applied IFRS 16 *Leases* at January 1, 2019 using the modified retrospective approach and has not restated comparative information. See Note 2.



## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(unaudited)

<b>3 Months Ended March 31</b>		
<i>(\$ millions, except per share amounts)</i>	<b>2019</b>	2018 <sup>(1)</sup>
Revenue (Note 10)	<b>1,968</b>	1,837
Cost of sales	<b>1,450</b>	1,357
Loss (gain) on commodity-related derivative financial instruments	<b>26</b>	(12)
Share of profit from equity accounted investees (Note 5)	<b>96</b>	76
<b>Gross profit</b>	<b>588</b>	568
General and administrative	<b>74</b>	61
Other expense	<b>3</b>	3
<b>Results from operating activities</b>	<b>511</b>	504
Net finance costs (Note 11)	<b>79</b>	59
<b>Earnings before income tax</b>	<b>432</b>	445
Current tax expense	<b>76</b>	22
Deferred tax expense	<b>43</b>	93
Income tax expense	<b>119</b>	115
<b>Earnings attributable to shareholders</b>	<b>313</b>	330
<b>Other comprehensive (loss) income</b>		
Exchange (loss) gain on translation of foreign operations	<b>(85)</b>	110
<b>Total comprehensive income attributable to shareholders</b>	<b>228</b>	440
<b>Earnings attributable to common shareholders, net of preferred share dividends</b>	<b>282</b>	300
<b>Earnings per common share – basic and diluted (dollars)</b>	<b>0.55</b>	0.59
<b>Weighted average number of common shares (millions)</b>		
Basic	<b>509</b>	503
Diluted	<b>511</b>	508

See accompanying notes to the condensed consolidated Interim Financial Statements

<sup>(1)</sup> Pembina has applied IFRS 16 Leases at January 1, 2019 using the modified retrospective approach and has not restated comparative information. See Note 2.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited)

(\$ millions)	Attributable to Shareholders of the Company					Non-controlling interest	Total Equity
	Common share capital	Preferred share capital	Deficit	Accumulated other comprehensive (loss) income	Total		
December 31, 2018 <sup>(1)</sup>	13,662	2,423	(2,058)	317	14,344	60	14,404
Impact of change in accounting policy (Note 2)	—	—	22	—	22	—	22
<b>Opening value January 1, 2019</b>	<b>13,662</b>	<b>2,423</b>	<b>(2,036)</b>	<b>317</b>	<b>14,366</b>	<b>60</b>	<b>14,426</b>
<b>Total comprehensive income</b>							
Earnings	—	—	313	—	313	—	313
<b>Other comprehensive income</b>							
Exchange loss on translation of foreign operations	—	—	—	(85)	(85)	—	(85)
Total comprehensive income	—	—	313	(85)	228	—	228
<b>Transactions with shareholders of the Company</b>							
Preferred shares issue costs (Note 9)	—	(1)	—	—	(1)	—	(1)
Share-based payment transactions (Note 9)	89	—	—	—	89	—	89
Dividends declared – common (Note 9)	—	—	(290)	—	(290)	—	(290)
Dividends declared – preferred (Note 9)	—	—	(31)	—	(31)	—	(31)
Total transactions with shareholders of the Company	89	(1)	(321)	—	(233)	—	(233)
<b>March 31, 2019</b>	<b>13,751</b>	<b>2,422</b>	<b>(2,044)</b>	<b>232</b>	<b>14,361</b>	<b>60</b>	<b>14,421</b>
December 31, 2017	13,447	2,424	(2,083)	(7)	13,781	60	13,841
<b>Total comprehensive income</b>							
Earnings	—	—	330	—	330	—	330
<b>Other comprehensive income</b>							
Exchange gain on translation of foreign operations	—	—	—	110	110	—	110
Total comprehensive income	—	—	330	110	440	—	440
<b>Transactions with shareholders of the Company</b>							
Preferred shares issued, net of issue costs	—	(2)	—	—	(2)	—	(2)
Debenture conversions	3	—	—	—	3	—	3
Share-based payment transactions	10	—	—	—	10	—	10
Dividends declared – common	—	—	(272)	—	(272)	—	(272)
Dividends declared – preferred	—	—	(30)	—	(30)	—	(30)
Total transactions with shareholders of the Company	13	(2)	(302)	—	(291)	—	(291)
<b>March 31, 2018</b>	<b>13,460</b>	<b>2,422</b>	<b>(2,055)</b>	<b>103</b>	<b>13,930</b>	<b>60</b>	<b>13,990</b>

See accompanying notes to the condensed consolidated Interim Financial Statements

<sup>(1)</sup> Pembina has applied IFRS 16 Leases at January 1, 2019 using the modified retrospective approach and has not restated comparative information. See Note 2.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited)

<b>3 Months Ended March 31</b>		
<i>(\$ millions)</i>	<b>2019</b>	2018 <sup>(1)</sup>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Earnings	<b>313</b>	330
Adjustments for:		
Share of profit from equity accounted investees	<b>(96)</b>	(76)
Distributions from equity accounted investees	<b>170</b>	126
Depreciation and amortization	<b>125</b>	97
Unrealized loss (gain) on commodity-related derivative financial instruments	<b>45</b>	(30)
Net finance costs (Note 11)	<b>79</b>	59
Net interest paid	<b>(81)</b>	(65)
Income tax expense	<b>119</b>	115
Taxes paid	<b>(71)</b>	(20)
Share-based compensation expense	<b>26</b>	11
Share-based compensation payment	<b>(50)</b>	(32)
Loss on asset disposal	<b>1</b>	—
Net change in contract liabilities	<b>3</b>	19
Other	<b>(6)</b>	4
Change in non-cash operating working capital	<b>31</b>	(40)
<b>Cash flow from operating activities</b>	<b>608</b>	498
<b>Financing activities</b>		
Bank borrowings and issuance of debt	<b>94</b>	—
Repayment of loans and borrowings	<b>(53)</b>	(482)
Repayment of lease liability	<b>(18)</b>	(2)
Issuance of medium term notes (Note 7)	<b>—</b>	700
Issue costs and financing fees	<b>—</b>	(7)
Exercise of stock options	<b>86</b>	7
Dividends paid	<b>(314)</b>	(302)
<b>Cash flow used in financing activities</b>	<b>(205)</b>	(86)
<b>Investing activities</b>		
Capital expenditures	<b>(361)</b>	(324)
Contributions to equity accounted investees	<b>(33)</b>	(58)
Interest paid during construction	<b>(8)</b>	(8)
Advances to related parties	<b>(10)</b>	(20)
Changes in non-cash investing working capital and other	<b>27</b>	36
<b>Cash flow used in investing activities</b>	<b>(385)</b>	(374)
Change in cash and cash equivalents	<b>18</b>	38
Effect of movement in exchange rates on cash held	<b>(3)</b>	—
Cash and cash equivalents, beginning of period	<b>157</b>	321
<b>Cash and cash equivalents, end of period</b>	<b>172</b>	359

See accompanying notes to the condensed consolidated Interim Financial Statements

<sup>(1)</sup> Pembina has applied IFRS 16 Leases at January 1, 2019 using the modified retrospective approach and has not restated comparative information. See Note 2.

## NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Pembina Pipeline Corporation ("Pembina" or the "Company") is a Calgary-based, leading transportation and midstream service provider serving North America's energy industry. The condensed consolidated unaudited interim financial statements ("Interim Financial Statements") include the accounts of the Company, its subsidiary companies, partnerships and any investments in associates and joint arrangements as at and for the three months ended March 31, 2019. These Interim Financial Statements and the notes thereto have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018 ("Consolidated Financial Statements"). The Interim Financial Statements were authorized for issue by Pembina's Board of Directors on May 2, 2019.

Pembina owns an integrated system of pipelines that transport various hydrocarbon liquids and natural gas products produced primarily in western Canada. The Company also owns gas gathering and processing facilities and an oil and natural gas liquids infrastructure, storage and logistics business. Pembina's integrated assets and commercial operations along the majority of the hydrocarbon value chain allow it to offer a full spectrum of midstream and marketing services to the energy sector.

### 2. CHANGES IN ACCOUNTING POLICIES

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

#### IFRS 16 Leases

The Company has adopted IFRS 16 Leases effective January 1, 2019. IFRS 16 introduced a new lease definition that increases the focus on control of the underlying asset. In addition, IFRS 16 introduced a single, on balance sheet accounting model for lessees that has resulted in the Company recording right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting has remained unchanged, except for changes in the classification of subleases.

IFRS 16 has been applied using the modified retrospective approach in which the cumulative effect of initial application was recognized in equity at January 1, 2019 as further disclosed below. Accordingly, the comparative financial information has not been restated and continues to be reported under IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease*. The details of the Company's accounting policies under IAS 17 and IFRIC 4, for the comparative period, were disclosed in the Consolidated Financial Statements.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of whether a contract entered into before the date of initial application was, or contained, a lease under IFRIC 4, rather than reassess based on the new definition of a lease under IFRS 16. Contracts previously identified as leases were recognized and measured in accordance with IFRS 16.

#### a. Accounting policies

The details of significant accounting policies under IFRS 16 and the nature of the changes to previous accounting policies under IAS 17 are outlined below.

##### i. Leases

For all contracts entered into or amended on or after January 1, 2019, the Company applies the definition of a lease under IFRS 16 to determine if a contract is, or contains, a lease. A specific asset is the subject of a lease if the contract conveys the right to control the use of that identified asset for a period of time in exchange for consideration. This determination is made at inception of a contract, and reassessed when the terms and conditions of the contract are amended.

At inception or on reassessment of a contract that contains a lease component, the Company allocates contract consideration to the lease and non-lease components on the basis of their relative stand-alone prices. The consideration allocated to the lease components is recognized in accordance with the policies for lessee and lessor leases, as described below. The consideration allocated to non-lease components is recognized in accordance with its nature.

## **ii. Lessee**

Leased assets are recognized as right-of-use assets, with corresponding lease liabilities recognized on the statement of financial position at the lease commencement date. Right-of-use assets include rail, buildings and land.

The right-of-use asset is initially recognized at cost, and subsequently measured at cost less any accumulated depreciation and accumulated impairment losses, adjusted for remeasurements of the lease liability. The right-of-use asset is depreciated over the lesser of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments, discounted at a rate the Company would be required to pay to borrow over a similar term, with a similar security to obtain an asset of a similar value to the right-of-use asset. Lease payments in an optional renewal period are included in the lease liability if the Company is reasonably certain to exercise such option. The lease liability is subsequently increased by interest expense on the lease liability and decreased by lease payments made. Interest expense is recorded in earnings at an amount that represents a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimated guaranteed residual value to be paid, or a change in the assessment of whether a purchase option, extension option or termination option is reasonably certain to be exercised. A corresponding adjustment is made to the right of use asset when a liability is remeasured or the adjustment is recorded in earnings if the right of use asset has been reduced to zero.

The Company has elected to apply the recognition exemptions for short-term and low value leases. The Company recognizes lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17, the Company classified lessee leases as operating or finance leases based on its assessment of whether the contract transferred substantially all of the risks and rewards of ownership. The lease payments associated with operating leases were recorded as an expense on a straight-line basis over the lease term. The accounting for finance leases has not changed.

## **iii. Lessor**

Lessor leases are classified as either operating leases or finance leases according to the substance of the contract. Leases transferring substantially all of the risks incidental to asset ownership are classified as finance leases, while all other leases are classified as operating leases. Subleases are classified as either operating or finance leases in reference to the right-of-use asset arising from the head lease. Under IAS 17, the Company classified lessor subleases as operating or finance leases based on the useful life of the underlying asset.

Assets under finance lease are recognized in finance lease receivables at the value of the net investment in the lease. The net investment in the lease is measured at the net present value of the future amounts receivable, discounted using the interest rate implicit in the lease. Finance income is recognized over the lease term in a pattern reflecting a consistent rate of return on the finance lease receivable.

Lease payments from operating leases are recognized as income on either a straight-line basis or a systematic basis representative of the pattern in which benefit from the use of the underlying asset is received.

## **b. Use of estimates and judgments**

### **Judgments**

Management applies judgment to determine whether a contract is, or contains, a lease from both a lessee and lessor perspective. This assessment is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Key judgments include whether a contract identifies an asset (a portion of an asset may be identified), whether the lessee obtains substantially all of the economic benefits of the asset over the contract term, and whether the lessee has the right to direct the asset's use. Judgment is also applied in determining the rate used to discount the lease payments.

### **Estimates**

In measuring its lease liabilities, management makes assessments of the stand-alone selling prices of each lease and non-lease component for the purposes of allocating consideration to each component. Management applies its best estimate with respect to the likelihood of renewal, extension and termination option exercise in determining the lease term.

## **c. Transition**

### **i. Lessee**

At transition, lease liabilities for contracts previously identified as operating leases under IAS 17 were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. For all leases, right-of-use assets were measured at an amount equal to the lease liability.

The Company applied the following practical expedients on transition:

- the Company applied a single discount rate to a portfolio of leases with similar characteristics rather than multiple discount rates to match the term of each lease;
- the Company has relied on onerous lease contract assessments previously performed under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative to an impairment review on right-of-use assets, resulting in an adjustment of the right-of-use asset balance by the amount of the onerous lease contract provision outstanding immediately before the date of initial application; and
- the Company elected not to recognize right-of-use assets and corresponding lease liabilities for leases with terms of less than twelve months remaining.

There has been no change to the accounting for contracts previously identified as finance leases under IAS 17. The carrying amount of the right-of-use asset and lease liability on transition were determined to be equal to the carrying amount of the lease asset and lease liability under IAS 17.

### **i. Lessor**

Sub-lease contracts previously classified as operating leases are recognized as finance leases under IFRS 16.

## **d. Financial statement impacts**

On transition to IFRS 16, the Company identified significant right-of-use assets and lease liabilities related to rail, buildings and land. Further disclosures related to leases are provided in financial statement note 6.

## i. Consolidated statement of financial position

The impacts of adoption of IFRS 16 as at January 1, 2019 are as follows:

(\$ millions)	As at December 31, 2018	Adjustments	Opening value January 1, 2019
<b>Assets</b>			
<b>Current assets</b>			
Trade receivables and other <sup>(1)</sup>	604	1	605
<b>Non-current assets</b>			
Property, plant and equipment <sup>(2)</sup>	14,730	(18)	14,712
Right-of-use assets <sup>(3)</sup>	—	427	427
Advances to related parties and other assets <sup>(1)(4)</sup>	144	33	177
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade payables and other <sup>(4)</sup>	870	(7)	863
Loans and borrowings <sup>(5)</sup>	480	(8)	472
Lease liabilities	—	64	64
<b>Non-current liabilities</b>			
Loans and borrowings <sup>(5)</sup>	7,057	(11)	7,046
Lease liabilities	—	416	416
Deferred tax liabilities	2,774	8	2,782
Other liabilities <sup>(4)</sup>	239	(41)	198
<b>Equity</b>			
Attributable to shareholders	14,344	22	14,366

<sup>(1)</sup> Includes current lessor finance lease receivables.

<sup>(2)</sup> Finance lease assets previously recorded in property, plant and equipment were reclassified to right-of-use assets.

<sup>(3)</sup> Right-of-use assets are recorded at a value equal to the associated lease liability of \$480 million, less \$33 million for sublease arrangements, less onerous lease liability balance at December 31, 2018 of \$20 million.

<sup>(4)</sup> Operating lease payments were previously recognized on a straight-line basis, with the difference between cash payments and expense (income) recorded to a deferred lease asset or deferred lease liability. These deferrals were derecognized on adoption of IFRS 16.

<sup>(5)</sup> Finance leases previously recorded in loans and borrowings were reclassified to lease liabilities. In addition, \$20 million of onerous lease liabilities were offset against right-of-use assets.

## ii. Reconciliation of lease liability

(\$ millions)	
Lease commitments, disclosed at December 31, 2018	796
Leases not yet commenced	(33)
Non-lease components	(217)
Renewal options reasonably certain to be exercised	53
Total undiscounted lease payments	599
Discounting impact <sup>(1)</sup>	(119)
Lease liabilities recognized as at January 1, 2019	480

<sup>(1)</sup> The Company discounted lease payments using the incremental credit-risk adjusted borrowing rate applicable to the contract. The weighted-average rate applied on transition for all lease liabilities was 4.01 percent.

## New standards and interpretations not yet adopted

### Conceptual Framework

In March 2018, the IASB issued a revised Conceptual Framework for Financial Reporting, effective for annual periods beginning on or after January 1, 2020 with early application permitted. The Conceptual Framework sets out the fundamental concepts of financial reporting and is applied to develop accounting policies when no IFRS Standard applies to a particular transaction. The revised Conceptual Framework includes: new concepts on measurement, presentation and disclosure, and derecognition; updated definitions of an asset and a liability and related recognition criteria; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company intends to adopt the revised Conceptual Framework for Financial Reporting on its effective date. The Company is currently evaluating the impact that the standard will have on its earnings and financial position.

### 3. DETERMINATION OF FAIR VALUES

A number of the Company'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 based on methods as set out in the December 31, 2018 Consolidated Financial Statements. These methods have been applied consistently to all periods presented in these Interim Financial Statements.

### 4. PROPERTY, PLANT AND EQUIPMENT

(\$ millions)	Land and Land Rights	Pipelines	Facilities and Equipment	Cavern Storage and Other	Assets Under Construction	Total
<b>Cost</b>						
Balance at December 31, 2018	340	7,164	7,159	1,478	939	17,080
Reclassification on adoption of IFRS 16 (Note 2)	—	—	—	(44)	—	(44)
Additions and transfers	8	9	194	172	(14)	369
Change in decommissioning provision	—	15	70	5	—	90
Disposals and other	(1)	(11)	—	(3)	(2)	(17)
Balance at March 31, 2019	<b>347</b>	<b>7,177</b>	<b>7,423</b>	<b>1,608</b>	<b>923</b>	<b>17,478</b>
<b>Depreciation</b>						
Balance at December 31, 2018	12	1,221	867	250	—	2,350
Reclassification on adoption of IFRS 16 (Note 2)	—	—	—	(26)	—	(26)
Depreciation	1	36	42	16	—	95
Disposals and other	—	(7)	—	(1)	—	(8)
Balance at March 31, 2019	<b>13</b>	<b>1,250</b>	<b>909</b>	<b>239</b>	<b>—</b>	<b>2,411</b>
<b>Carrying amounts</b>						
Balance at December 31, 2018	328	5,943	6,292	1,228	939	14,730
Balance at March 31, 2019	<b>334</b>	<b>5,927</b>	<b>6,514</b>	<b>1,369</b>	<b>923</b>	<b>15,067</b>



## 5. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

(\$ millions)	Ownership Interest		Share of Profit (Loss) from Equity Investments		Equity Investments	
			3 Months Ended March 31			
	March 31, 2019	December 31, 2018	2019	2018	March 31, 2019	December 31, 2018
Alliance	50%	50%	50	46	2,734	2,799
Aux Sable	42.7% - 50%	42.7% - 50%	4	6	448	480
Ruby Pipeline <sup>(1)</sup>	50% <sup>(1)</sup>	50% <sup>(1)</sup>	29	28	1,615	1,648
Veresen Midstream	45%	45.3%	12	(6)	1,332	1,324
CKPC	50%	50%	1	—	62	—
Other	50% - 75%	50% - 75%	—	2	116	117
			96	76	6,307	6,368

<sup>(1)</sup> Ownership interest in Ruby is presented as a 50 percent proportionate share with the benefit of a preferred distribution structure. Share of profit from equity accounted investees for Ruby is equal to the preferred interest distribution.

## 6. LEASES

### Lessee leases

The Company enters into arrangements to secure access to assets necessary for operating the business. Leased (right-of-use) assets include rail, buildings, and land and other assets. Total cash outflows related to leases was \$21 million for the three months ended March 31, 2019.

### Right-of-use assets

(\$ millions)	Rail	Buildings	Land & Other	Total
Balance at January 1, 2019 (Note 2)	221	127	79	427
Depreciation	(9)	(4)	(2)	(15)
<b>Balance at March 31, 2019</b>	<b>212</b>	<b>123</b>	<b>77</b>	<b>412</b>

### Lessor leases

The Company has entered into contracts for the use of its assets that have resulted in lease treatment for accounting purposes. Assets under operating leases include a pipeline, terminal and storage caverns. Assets under finance leases include office sub-leases.

### Maturity of lease receivable

As at March 31, 2019		
(\$ millions)	Operating Leases	Finance Leases
Less than one year	90	1
One to two years	90	6
Two to three years	89	7
Three to four years	89	6
Four to five years	89	4
More than five years	976	16
Total undiscounted lease payments	1,423	40
Unearned finance income		(5)
Finance lease receivable		35

Finance lease receivables are included in Advances to related parties and other assets on the Condensed Consolidated Interim Statement of Financial Position.

## 7. LOANS AND BORROWINGS

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

### Carrying value, terms and conditions, and debt maturity schedule

(\$ millions)	Authorized at March 31, 2019	Nominal interest rate	Year of maturity	Carrying value	
				March 31, 2019	December 31, 2018
Senior unsecured credit facilities <sup>(1)</sup>	3,520	2.88 <sup>(2)</sup>	Various <sup>(1)</sup>	1,343	1,305
Senior unsecured notes – series A	73	5.565	2020	75	76
Senior unsecured notes – series C	200	5.58	2021	199	199
Senior unsecured notes – series D	267	5.91	2019	267	267
Senior unsecured medium-term notes series 1	250	4.89	2021	250	250
Senior unsecured medium-term notes series 2	450	3.77	2022	449	449
Senior unsecured medium-term notes series 3	450	4.75	2043	447	446
Senior unsecured medium-term notes series 4	600	4.81	2044	596	596
Senior unsecured medium-term notes series 5	450	3.54	2025	448	448
Senior unsecured medium-term notes series 6	500	4.24	2027	498	498
Senior unsecured medium-term notes series 7	500	3.71	2026	498	498
Senior unsecured medium-term notes series 8	650	2.99	2024	646	646
Senior unsecured medium-term notes series 9	550	4.74	2047	541	541
Senior unsecured medium-term notes series 10	400	4.02	2028	398	398
Senior unsecured medium-term notes series 11	300	4.75	2048	298	298
Senior unsecured medium-term notes 3A	50	5.05	2022	50	50
Senior unsecured medium-term notes 4A	200	3.06	2019	204	205
Senior unsecured medium-term notes 5A	350	3.43	2021	353	353
Finance lease liabilities and other <sup>(3)</sup>	—			—	14
Total interest bearing liabilities				7,560	7,537
Less current portion				(471)	(480)
Total non-current				7,089	7,057

<sup>(1)</sup> Pembina's unsecured credit facilities include a \$2.5 billion revolving facility that matures May 2023, \$1.0 billion non-revolving term loan facility that matures March 2021 and a \$20 million operating facility that matures May 2019, which is typically renewed on an annual basis.

<sup>(2)</sup> The nominal interest rate is the weighted average of all drawn credit facilities based on the Company's credit rating at March 31, 2019. Borrowings under the credit facilities bear interest at prime, Bankers' Acceptance, or LIBOR rates, plus applicable margins.

<sup>(3)</sup> On adoption of IFRS 16 on January 1, 2019, finance leases previously reported in loans and borrowings were reclassified to lease liabilities. See Note 2.

Subsequent to quarter end, Pembina closed an offering of \$800 million of senior unsecured medium-term notes (the "Offering") on April 3, 2019. The Offering was conducted in two tranches consisting of \$400 million in senior unsecured medium-term notes, series 12, having a fixed coupon of 3.62 percent per annum, paid semi-annually, and maturing on April 3, 2029 and \$400 million in senior unsecured medium-term notes, series 13, having a fixed coupon of 4.54 percent per annum, paid semi-annually, and maturing on April 3, 2049.

All facilities are governed by specific debt covenants which Pembina was in compliance with at March 31, 2019 (2018: in compliance).

## 8. DECOMMISSIONING PROVISION

(\$ millions)	2019
Balance at January 1	573
Unwinding of discount rate	3
Change in rates	93
Additions	5
Change in estimates and other	(5)
Total	669
Less current portion (included in accrued liabilities)	(4)
<b>Balance at March 31</b>	<b>665</b>

The Company applied a 1.8 percent inflation rate per annum (2018: 1.8 percent) and a risk-free rate of 2.0 percent (2018: 2.3 percent) to calculate the present value of the decommissioning provision. Changes in the measurement of the decommissioning provision are added to, or deducted from, the cost of the related asset in property, plant and equipment. When a re-measurement of the decommissioning provision relates to a retired asset, the amount is recorded in earnings.

## 9. SHARE CAPITAL

### Common share capital

(\$ millions, except as noted)	Number of common shares (millions)	Common share capital
Balance at December 31, 2018	508	13,662
Share-based payment transactions	2	89
<b>Balance at March 31, 2019</b>	<b>510</b>	<b>13,751</b>

### Preferred share capital

(\$ millions, except as noted)	Number of preferred shares (millions)	Preferred share capital
Balance at December 31, 2018	100	2,423
Preferred Shares issued, net of issue costs	—	(1)
<b>Balance at March 31, 2019</b>	<b>100</b>	<b>2,422</b>

### Dividends

The following dividends were declared by the Company:

<b>3 Months Ended March 31</b>		
(\$ millions)	2019	2018
Common shares		
Common shares \$0.57 per qualifying share (2018: \$0.54)	290	272
Preferred shares		
\$0.306625 per qualifying Series 1 preferred share (2018: \$0.265625)	3	3
\$0.293750 per qualifying Series 3 preferred share (2018: \$0.293750)	2	2
\$0.312500 per qualifying Series 5 preferred share (2018: \$0.312500)	3	3
\$0.281250 per qualifying Series 7 preferred share (2018: \$0.281250)	3	3
\$0.296875 per qualifying Series 9 preferred share (2018: \$0.296875)	2	2
\$0.359375 per qualifying Series 11 preferred share (2018: \$0.359375)	2	2
\$0.359375 per qualifying Series 13 preferred share (2018: \$0.359375)	4	4
\$0.279000 per qualifying Series 15 preferred share (2018: \$0.279000)	2	2
\$0.312500 per qualifying Series 17 preferred share (2018: \$0.312500)	2	2
\$0.312500 per qualifying Series 19 preferred share (2018: \$0.312500)	3	3
\$0.306250 per qualifying Series 21 preferred share (2018: \$0.281900)	5	4
	31	30

On January 30, 2019, Pembina announced that it did not intend to exercise its right to redeem the six million Cumulative Redeemable Rate Reset Class A Preferred Shares, Series 3 ("Series 3 Shares") shares outstanding on March 1, 2019.

On March 1, 2019, Pembina announced that it did not intend to exercise its right to redeem the six million Cumulative Redeemable Rate Reset Class A Preferred Shares, Series 17 ("Series 17 Shares") shares outstanding on March 31, 2019.

On April 9, 2019, Pembina announced that its Board of Directors had declared a dividend of \$0.19 per qualifying common share (\$2.28 annually) in the total amount of \$97 million, payable on May 15, 2019 to shareholders of record on April 25, 2019. Pembina's Board of Directors also declared quarterly dividends for the Company's preferred shares as outlined in the following table:

Series	Record date	Payable date	Per share amount	Dividend amount (\$ millions)
Series 1	May 1, 2019	June 3, 2019	\$0.306625	3
Series 3	May 1, 2019	June 3, 2019	\$0.279875	2
Series 5	May 1, 2019	June 3, 2019	\$0.312500	3
Series 7	May 1, 2019	June 3, 2019	\$0.281250	3
Series 9	May 1, 2019	June 3, 2019	\$0.296875	2
Series 11	May 1, 2019	June 3, 2019	\$0.359375	2
Series 13	May 1, 2019	June 3, 2019	\$0.359375	4
Series 15	June 17, 2019	July 2, 2019	\$0.279000	2
Series 17	June 17, 2019	July 2, 2019	\$0.301313	2
Series 19	June 17, 2019	July 2, 2019	\$0.312500	3
Series 21	May 1, 2019	June 3, 2019	\$0.306250	5

On May 2, 2019, Pembina's Board of Directors approved a 5 percent increase in its monthly common share dividend rate (from \$0.19 per common share to \$0.20 per common share), commencing with the dividend paid on June 14, 2019.

## 10. REVENUE

Revenue has been disaggregated into categories to reflect how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors.

### a. Revenue disaggregation

3 Months Ended March 31 (\$ millions)	2019				2018			
	Pipelines Division	Facilities Division	Marketing & New Ventures Division	Total	Pipelines Division	Facilities Division	Marketing & New Ventures Division	Total
Take-or-pay <sup>(1)</sup>	273	161	—	434	205	163	—	368
Fee-for-service <sup>(1)</sup>	96	17	—	113	90	22	—	112
Product sales <sup>(2)(3)</sup>	—	3	1,396	1,399	—	1	1,332	1,333
<b>Revenue from contracts with customers</b>	<b>369</b>	<b>181</b>	<b>1,396</b>	<b>1,946</b>	<b>295</b>	<b>186</b>	<b>1,332</b>	<b>1,813</b>
Lease and other revenue <sup>(4)</sup>	15	7	—	22	24	—	—	24
<b>Total external revenue</b>	<b>384</b>	<b>188</b>	<b>1,396</b>	<b>1,968</b>	<b>319</b>	<b>186</b>	<b>1,332</b>	<b>1,837</b>

<sup>(1)</sup> Revenue recognized over time.

<sup>(2)</sup> Revenue recognized at a point in time.

<sup>(3)</sup> Revenue reported for 2018 periods have been recast to reflect updated presentation for 2019, where product sales are reported in the Marketing & New Ventures Division.

<sup>(4)</sup> Includes fixed operating lease income of \$22 million for the three months ended March 31, 2019.

## b. Contract balances

Significant changes in the contract liabilities balances during the period are as follows:

(\$ millions)	3 Months Ended March 31, 2019			12 Months Ended December 31, 2018		
	Take-or-pay	Other contract liabilities	Total contract liabilities	Take-or-pay	Other contract liabilities	Total contract liabilities
Opening balance	9	159	168	8	149	157
Additions (net in the period)	13	1	14	5	33	38
Revenue recognized from contract liabilities <sup>(1)</sup>	(2)	(9)	(11)	(4)	(23)	(27)
Closing balance	20	151	171	9	159	168
Less current portion <sup>(2)</sup>	(20)	(21)	(41)	(9)	(28)	(37)
Ending balance	—	130	130	—	131	131

<sup>(1)</sup> Recognition of revenue related to performance obligations satisfied in the current period that were included in the opening balance of contract liabilities.

<sup>(2)</sup> As at March 31, 2019, the balance includes \$20 million of cash collected under take-or-pay contracts which will be recognized during the remainder of the year as the customer chooses to ship, process, or otherwise forego the associated service (March 31, 2018: \$37 million).

Contract liabilities depict the Company's obligation to perform services in the future for which payment has been received from customers. Contract liabilities include up-front payments or non-cash consideration received from customers for future transportation, processing and storage services. Contract liabilities also include consideration received from customers for take-or-pay commitments where the customer has a make-up right to ship or process future volumes under a firm contract. These amounts are non-refundable should the customer not use its make-up rights.

The Company does not have any contract assets. In all instances where goods or services have been transferred to a customer in advance of the receipt of customer consideration, the Company's right to consideration is unconditional and has therefore been presented as a receivable.

## c. Revenue allocated to remaining performance obligations

Pembina expects to recognize revenue in future periods that includes current unsatisfied or partially unsatisfied remaining performance obligations. There has not been a significant change in the amount of revenue Pembina expects to recognize over the next five year period or all future periods compared to that previously disclosed in the Consolidated Financial Statements as at and for the year ended December 31, 2018.

## 11. NET FINANCE COSTS

(\$ millions)	3 Months Ended March 31	
	2019	2018
Interest expense on financial liabilities measured at amortized cost:		
Loans and borrowings	71	67
Convertible debentures	—	2
Leases	5	—
Unwinding of discount rate	3	3
Loss in fair value of non-commodity-related derivative financial instruments	3	8
Gain on revaluation of conversion feature of convertible debentures	—	(15)
Foreign exchange gain and other	(3)	(6)
Net finance costs	79	59

## 12. OPERATING SEGMENTS

Pembina's operating segments are organized by three divisions: Pipelines, Facilities and Marketing & New Ventures.

<b>3 Months Ended March 31, 2019</b> (\$ millions)	<b>Pipelines Division<sup>(1)</sup></b>	<b>Facilities Division</b>	<b>Marketing &amp; New Ventures Division<sup>(3)</sup></b>	<b>Corporate &amp; Inter-Division Eliminations</b>	<b>Total</b>
Revenue from external customers	384	188	1,396	—	1,968
Inter-division revenue	32	83	—	(115)	—
Total revenue <sup>(3)</sup>	416	271	1,396	(115)	1,968
Operating expenses	98	85	—	(43)	140
Cost of goods sold, including product purchases	—	1	1,265	(72)	1,194
Realized gain on commodity-related derivative financial instruments	—	—	(19)	—	(19)
Share of profit from equity accounted investees	79	12	5	—	96
Depreciation and amortization included in operations	57	39	17	3	116
Unrealized loss on commodity-related derivative financial instruments	—	—	45	—	45
<b>Gross profit</b>	<b>340</b>	<b>158</b>	<b>93</b>	<b>(3)</b>	<b>588</b>
Depreciation included in general and administrative	—	—	—	9	9
Other general and administrative	10	5	13	37	65
Other expense	1	—	1	1	3
<b>Reportable segment results from operating activities</b>	<b>329</b>	<b>153</b>	<b>79</b>	<b>(50)</b>	<b>511</b>
Net finance costs	2	2	(3)	78	79
<b>Reportable segment earnings (loss) before tax</b>	<b>327</b>	<b>151</b>	<b>82</b>	<b>(128)</b>	<b>432</b>
Capital expenditures	192	112	55	2	361
Contributions to equity accounted investees	—	26	64	—	90

<b>3 Months Ended March 31, 2018</b> (\$ millions)	<b>Pipelines Division<sup>(1)</sup></b>	<b>Facilities Division<sup>(4)</sup></b>	<b>Marketing &amp; New Ventures Division<sup>(2)(4)</sup></b>	<b>Corporate &amp; Inter-Division Eliminations</b>	<b>Total</b>
Revenue from external customers	319	186	1,332	—	1,837
Inter-Division revenue	34	65	—	(99)	—
Total revenue <sup>(3)</sup>	353	251	1,332	(99)	1,837
Operating expenses	85	65	—	—	150
Cost of goods sold, including product purchases	—	3	1,212	(97)	1,118
Realized loss on commodity-related derivative financial instruments	—	—	18	—	18
Share of profit (loss) from equity accounted investees	75	(5)	6	—	76
Depreciation and amortization included in operations	49	35	5	—	89
Unrealized gain on commodity-related derivative financial instruments	—	—	(30)	—	(30)
<b>Gross profit</b>	<b>294</b>	<b>143</b>	<b>133</b>	<b>(2)</b>	<b>568</b>
Depreciation included in general and administrative	—	—	—	8	8
Other general and administrative	5	5	10	33	53
Other expense	—	—	—	3	3
<b>Reportable segment results from operating activities</b>	<b>289</b>	<b>138</b>	<b>123</b>	<b>(46)</b>	<b>504</b>
Net finance costs (income)	2	5	(3)	55	59
<b>Reportable segment earnings (loss) before tax</b>	<b>287</b>	<b>133</b>	<b>126</b>	<b>(101)</b>	<b>445</b>
Capital expenditures	266	38	20	—	324
Contributions to equity accounted investees	—	58	—	—	58

<sup>(1)</sup> Pipelines Division transportation revenue includes \$5 million (2018: \$6 million) associated with U.S. pipeline sales.

<sup>(2)</sup> Marketing & New Ventures Division includes revenue of \$63 million (2018: \$56 million) associated with U.S. midstream sales.

<sup>(3)</sup> During both periods, one customer accounted for 10 percent or more of total revenues, with \$207 million (2018: \$185 million) reported throughout all segments.

<sup>(4)</sup> Revenue and cost of goods sold reported for all 2018 periods have been recast to reflect updated presentation for 2019, where all cost of goods sold and corresponding revenues are reported in the Marketing & New Ventures Division.

### 13. FINANCIAL INSTRUMENTS

#### Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the condensed consolidated interim statements of financial position, are shown in the table below. Financial assets or liabilities that have carrying value that approximates fair value have been excluded.

(\$ millions)	March 31, 2019				December 31, 2018			
	Carrying value	Fair Value <sup>(1)</sup>			Carrying value	Fair Value <sup>(1)</sup>		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>Financial assets carried at fair value</b>								
Derivative financial instruments	11	—	11	—	54	—	54	—
Advances to related parties <sup>(2)</sup>	—	—	—	—	58	—	—	58
	11	—	11	—	112	—	54	58
<b>Financial assets carried at amortized cost</b>								
Advances to related parties and other assets	125	—	125	—	86	—	86	—
<b>Financial liabilities carried at fair value</b>								
Derivative financial instruments	10	—	10	—	6	—	6	—
<b>Financial liabilities carried at amortized cost</b>								
Loans and borrowings <sup>(3)</sup>	7,560	—	7,919	—	7,537	—	7,588	—

<sup>(1)</sup> The basis for determining fair value is disclosed in note 3.

<sup>(2)</sup> Advances to related parties carried at fair value consisted of funds advanced by Pembina to a jointly controlled entity with an equity conversion option that was exercised during the quarter. US\$43 million of advances were converted to shares during the quarter and are included in the Investments in Equity Accounted Investees balance in the condensed consolidated interim statements of financial position at March 31, 2019.

<sup>(3)</sup> Carrying value of current and non-current balances.

### 14. COMMITMENTS, CONTINGENCIES AND GUARANTEES

#### Commitments

Pembina had the following contractual obligations outstanding at March 31, 2019:

Contractual obligations (\$ millions)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years
Leases <sup>(1)</sup>	574	61	150	113	250
Loans and borrowings <sup>(2)</sup>	10,820	770	2,374	1,815	5,861
Construction commitments <sup>(3)</sup>	1,137	702	100	31	304
Other	239	32	74	52	81
<b>Total contractual obligations</b>	<b>12,770</b>	<b>1,565</b>	<b>2,698</b>	<b>2,011</b>	<b>6,496</b>

<sup>(1)</sup> Includes rail, office space, land and vehicles leases.

<sup>(2)</sup> Excluding deferred financing costs. Including interest payments on senior unsecured notes.

<sup>(3)</sup> Excluding significant projects that are awaiting regulatory approval at March 31, 2019, projects which Pembina is not committed to construct, and projects that are executed by equity accounted investees.

Pembina enters into product purchase agreements and power purchase agreements to secure supply for future operations. Purchase prices of both NGL and power are dependent on current market prices. Volumes and prices for NGL and power contracts cannot be reasonably determined and therefore an amount has not been included in the contractual obligations schedule. Product purchase agreements range from one to 10 years and involve the purchase of NGL products from producers. Assuming product is available, Pembina has secured between 24 and 105 mbpd each year up to and including 2027. Power purchase agreements range from one to 25 years and involve the purchase of power from electrical service providers. The Company has secured up to 60 megawatts per day each year up to and including 2043.

#### Commitments to equity accounted investees

Pembina has a contractual commitment to provide equity contributions to CKPC based on budgeted amounts approved by the joint venture partners, not to exceed US\$89 million. In addition, Pembina is contractually committed to provide CKPC with funding to construct assets that will form part of CKPC's PDH/PP Facility, subject to certain conditions being met.

Pembina has a contractual commitment to advance US\$63 million to Ruby during the period to March 26, 2020.

Pembina has commitments to provide contributions to certain equity accounted investees based on annual budgets approved by the joint venture partners.

### **Contingencies**

The Company, its subsidiaries and its investments in equity accounted investees are subject to various legal and regulatory proceedings and actions arising in the normal course of business. We represent our interests vigorously in all proceedings in which we are involved. Legal and administrative proceedings involving possible losses are inherently complex, and we apply significant judgment in estimating probable outcomes. While the outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolutions of such actions and proceedings will not have a material impact on the Company's financial position or results of operations.

### **Guarantees**

The Company has \$65 million (2018: \$69 million) in letters of credit issued to facilitate commercial transactions with third parties and to support regulatory requirements.

The Company has provided guarantees to various third parties in the normal course of conducting business. The guarantees include financial guarantees to counterparties for product purchases and sales, transportation services, utilities, engineering and construction services. The guarantees have not had and are not expected to have a material impact on the Company's financial position, earnings, liquidity or capital resources.



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## Press Release

# DBRS Comments on Pembina's Investment Decision on Petrochemical Facility

## Energy

February 04, 2019

DBRS Limited (DBRS) notes that Pembina Pipeline Corporation (Pembina or the Company; rated BBB with a Stable trend by DBRS) today announced its investment decision to construct a 550,000-metric-tonne per-annum integrated propane dehydrogenation (PDH) plant and polypropylene (PP) upgrading facility (the PDH/PP Facility). The investment will be made through a 50/50 joint venture entity, Canada Kuwait Petrochemical Corporation (CKPC). CKPC will be equally owned by Pembina and Petrochemical Industries Company K.S.C. (PIC) of Kuwait, which is indirectly owned by the State of Kuwait.

The PDH/PP Facility will be strategically located in Alberta's Industrial Heartland, adjacent to Pembina's Redwater fractionation complex (RFS), and will be designed to consume approximately 23,000 barrels of propane per day of local propane from RFS and other regional fractionation facilities. The PDH/PP Facility has a nameplate capacity of 550,000 metric tonnes of PP per year, including the impact and random copolymers. Located in Alberta, the PDH/PP Facility will have access to an abundant supply of propane feedstock, which is expected to provide the PDH/PP Facility with a structural cost advantage compared with other North American facilities. PP is high value, easily transportable and a fully recyclable polymer that can be used in a wide range of finished products, including automobiles, medical devices, food packaging and home electronics.

The investment brings together two complementary partners with (1) Pembina, which has significant project management experience in Alberta, managing long-term propane supply and operations and (2) PIC bringing comprehensive

## Issuers

Pembina Pipeline Corporation

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is approximately \$2.5 billion, which represents a 50% interest in CKPC and a 100% interest in the supporting facilities (the Supporting Facilities). The Supporting Facilities will be under a take-or-pay long-term contract between CKPC and Pembina.

Pembina has secured more than 40% of its projected cash flow from the PDH/PP Facility through a portfolio of long-term, primarily take-or-pay, fee-for-service and other similar commercial arrangements, which has a weighted-average life of approximately 14 years, with the majority of counterparties being at investment-grade levels. Pembina is having ongoing negotiations to achieve its target of a minimum 50% fee-for-service adjusted cash flow from the PDH/PP Facility. The PDH/PP Facility is expected to be completed in mid-2023, subject to environmental and regulatory approvals, and is expected to generate adjusted EBITDA of between \$275 million and \$300 million per year net to Pembina. In addition, CKPC has been awarded \$300 million of royalty credits from the Alberta government, of which CKPC has, to date, entered into an agreement to monetize more than 80% over the first several years of the PDH/PP Facility's operation.

The \$4.0 billion PDH/PP project is expected to pursue asset-level financing for 50% of its total costs, with the remaining 50% to be financed through equity contributions from Pembina (approximately \$1.0 billion) and PIC (approximately \$1.0 billion). Together, with the investment in the Supporting Facilities, Pembina is expected to invest approximately \$1.25 billion in equity. Heavy portions of this investment are expected to incur in 2021, 2022 and 2023. Pembina expects to finance its investment in the PDH/PP Facility and the Supporting Facilities with 50% equity and 50% debt.

DBRS does not expect the investment in the PDH/PP Facility and the Supporting Facilities to have a material impact on Pembina's credit profile, reflecting the following factors: (1) Although a portion of non-contracted cash flow from the PDH/PP Facility exposes Pembina to commodity price risk, this exposure is manageable by Pembina since all of its capital projects coming online over the medium term are under long-term fee-for-service or take-or-pay contracts. It is expected that approximately 85% (or higher) of Pembina's adjusted EBITDA will be generated from either fee-for-service or take-or-pay contracts when the PDH/PP Facility is completed (for context, this portion was approximately 82% in 2017 and 77% in 2016). (2) Although CKPC is expected to be exposed to project cost overruns and delays, DBRS expects CKPC to mitigate this risk through appropriate construction contracting strategy.

Pembina's current credit profile is solid for the BBB rating, reflecting (1) strong

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In addition, since most of the funds to finance the PDH/PP Facility will occur in 2021, 2022 and 2023, Pembina has the financing capability and capital expenditure flexibility to minimize the impact of the investment in the PDH/PP Facility and the Supporting Facilities. However, if the construction of the PDH/PP Facility results in significant cost overruns or a lengthy delay or if the Company's credit metrics weaken substantially during its construction, DBRS may take a negative rating action.

#### Notes:

All figures are in Canadian dollars unless otherwise noted.

The principal methodologies are Rating Companies in the Pipeline and Diversified Energy Industry and DBRS Criteria: Preferred Share and Hybrid Security Criteria for Corporate Issuers, which can be found on [dbrs.com](http://dbrs.com) under Methodologies & Criteria.

For more information on this credit or on this industry, visit [www.dbrs.com](http://www.dbrs.com) or contact us at [info@dbrs.com](mailto:info@dbrs.com).

DBRS Limited

DBRS Tower, 181 University Avenue, Suite 700

Toronto, ON M5H 3M7 Canada

## Related Documents

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#### Methodology Used:

DBRS Criteria: Preferred Share and Hybrid Security Criteria for Corporate Issuers / November 1, 2018

Rating Companies in the Pipeline and Diversified Energy Industry / November 28, 2018

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# Pembina Pipeline Corp. 'BBB' Ratings Affirmed Following Positive Investment Decision On Petrochemical Facility

06-Feb-2019 11:30 EST

[View Analyst Contact Information](#)

Calgary, Alta.-based Pembina Pipeline Corp. announced plans to build an integrated propane dehydrogenation (PDH) plant and polypropylene (PP) upgrading facility.

The PDH/PP facility will be built through the Canada Kuwait Petrochemical Corp. (CKPC), an equally owned joint venture (JV) entity with Petrochemical Industries Co. K.S.C. (PIC) of Kuwait.

We believe the cushion in the credit metrics, the JV structure, asset-level financing, and a partner in PIC who has experience developing such projects around the world, mitigate the construction and execution risk.

We affirmed all of our ratings, including our 'BBB' long-term issuer credit rating, on Pembina.

The stable outlook reflects our view that the company will maintain a high proportion of fee-based or take-or-pay type contracts, which we expect to constitute more than 85% of cash flows over our two-year outlook period.

TORONTO (S&P Global Ratings) Feb. 6, 2019--S&P Global Ratings today took the rating actions listed above. The affirmation reflects our view that the cushion in the credit metrics, the JV structure, asset-level financing, and a partner in PIC who has PDH and PP project experience and global petrochemical marketing expertise, mitigate the construction and execution risk from the PDH/PP project. The PDH/PP facility has a nameplate capacity of 550,000 metric tons of PP per year and will be adjacent to Pembina's Redwater fractionation complex (RFS). The facility will consume approximately 23,000 barrels per day of local propane from RFS and other regional fractionation facilities. The facility will have long-term access to an abundant supply of propane feedstock from the Western Canadian Sedimentary Basin, which gives it a feedstock cost advantage when compared to other North American facilities.

The stable outlook reflects our view that Pembina will continue to maintain a high proportion of fee-based or take-or-pay type contracts, which we expect to constitute more than 85% of cash flows over our two-year outlook period. In our base-case scenario, we expect FFO-to-debt of 17%-20% and debt-to-EBITDA of 3.8x-4.3x over our two-year outlook period. In addition, we believe that the proposed PDH/PP facility could weaken credit metrics during the peak capital spending in 2021-2023. However, we still expect the company to maintain FFO-to-debt above 15%.

We could consider a negative rating action during our outlook period if forecast FFO-to-debt declines and stays below 15% with no immediate path to recovery. This could be due to increased debt-financed capital expenditures or decreasing revenue from commodity-exposed business segments. In addition, any cost overruns on the PDH/PP facility mostly debt-financed or project delays, which extends the period of weak credits beyond our forecast period, could also result in a negative rating action.

Given the high capital spending and inherent construction and execution risk in the PDH/PP project, an upgrade seems highly unlikely during our two-year outlook period. Nevertheless, we could consider a positive rating action if the ongoing capital program, including the PDH/PP facility, finishes on time and on budget, FFO-to-debt stays over 20%, and the proportion of highly contracted cash flows remains above 85% of cash flows.

#### RELATED CRITERIA



General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en\_US/web/guest/article/-/view/sourcelid/10011703)

, April 7, 2017

Criteria | Corporates | General: Methodology And Assumptions: Liquidity

Descriptors For Global Corporate Issuers (/en\_US/web/guest/article/-/view/sourcelid/8956570), Dec. 16, 2014

Criteria | Corporates | Industrials: Key Credit Factors For The Midstream

Energy Industry (/en\_US/web/guest/article/-/view/sourcelid/8362492), Dec. 19, 2013

Criteria | Corporates | General: Corporate Methodology: Ratios And

Adjustments (/en\_US/web/guest/article/-/view/sourcelid/8330212), Nov. 19, 2013

Criteria | Corporates | General: Corporate Methodology (/en\_US/web/guest/article/-/view/sourcelid/8314109), Nov. 19, 2013

General Criteria: Country Risk Assessment Methodology And Assumptions (/en\_US/web/guest/article/-/view/sourcelid/8313032),

Nov. 19, 2013

General Criteria: Methodology: Industry Risk (/en\_US/web/guest/article/-/view/sourcelid/8304862), Nov. 19, 2013

General Criteria: Group Rating Methodology (/en\_US/web/guest/article/-/view/sourcelid/8336067), Nov. 19, 2013

General Criteria: Methodology: Management And Governance Credit Factors

For Corporate Entities And Insurers (/en\_US/web/guest/article/-/view/sourcelid/7629699), Nov. 13, 2012

General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call

Options, And Replacement Provisions (/en\_US/web/guest/article/-/view/sourcelid/7598544), Oct. 22, 2012

Criteria - Financial Institutions - General: Methodology: Hybrid Capital

Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers (/en\_US/web/guest/article/-/view/sourcelid/5838577),

Feb. 10, 2010

General Criteria: Use Of CreditWatch And Outlooks (/en\_US/web/guest/article/-/view/sourcelid/5612636), Sept. 14, 2009

Criteria - Insurance - General: Hybrid Capital Handbook: September 2008

Edition (/en\_US/web/guest/article/-/view/sourcelid/5002701), Sept. 15, 2008

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