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# PEMBINA PIPELINE INCOME FUND

***Interim Report***

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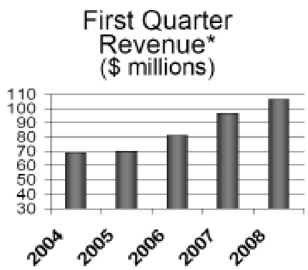
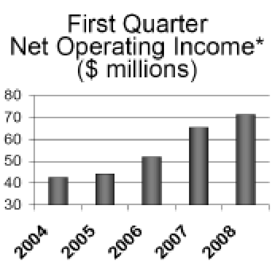
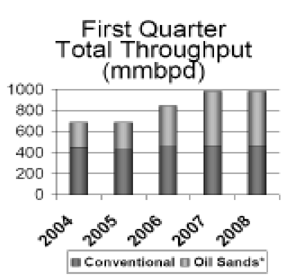



*net of product purchases




*see "Non-GAAP Measures" below




*contracted capacity

## PEMBINA REPORTS SOLID FIRST QUARTER 2008 RESULTS

- The Fund distributed $0.36 per Trust Unit during the first quarter of 2008 for total cash distributions of $47.8 million, a 14 percent increase over the same period of 2007.

- Pembina generated distributable cash of $50.8 million, an increase of 7 percent over the same period of 2007.

- Pembina generated net earnings of $32.6 million during the quarter, representing a 4 percent decrease over the same period of 2007, due to a decline in the future income tax reduction of $2.8 million.

- The conventional pipelines contributed $67.1 million in revenue and $39.8 million in net operating income during the first quarter of 2008, an 8 percent and 5 percent increase, respectively, from the same quarter of the previous year. March exit throughputs were at the highest level in 12 months due to better than expected results from recent connections and the implementation of new services.

- Pembina's Oil Sands & Heavy Oil Infrastructure business segment contributed $15.6 million in revenue and $9.6 million in net operating income during the first quarter, an 8 percent and 1 percent increase, respectively, from the same quarter of 2007. Construction and commissioning of the $400 million Horizon Pipeline is on schedule and is expected to be available for service on July 1, 2008. Pembina expects the operating income contribution of the Oil Sands & Heavy Oil Infrastructure unit to more than double once Horizon comes on stream which, commencing at start up, will generate incremental annual net operating income of approximately $45 million.

- Midstream & Marketing contributed $23.6 million in revenue and $21.8 million in net operating income during the first quarter of 2008, a 19 and 23 percent increase, respectively, from the same quarter of 2007. The ongoing expansion of the asset base and range of services offered by this business unit has generated a material increase in cash flow contribution, which Pembina expects to continue with the addition of new terminalling services on the Peace system commencing July 1, 2008.

## Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") is dated April 30, 2008 and is supplementary to, and should be read in conjunction with, the unaudited comparative interim financial statements and notes of Pembina Pipeline Income Fund as at and for the three months ended March 31, 2008, along with the Fund's Management's Discussion and Analysis and audited financial statements and notes for the year ended December 31, 2007. This MD&A has been reviewed and approved by both the Audit Committee of the Board of Directors and by the Board of Directors. All amounts are listed in Canadian dollars unless otherwise specified. References to "mbbls/d", "bbls/d" and "$/bbl" mean thousands of barrels per day, barrels per day and dollars per barrel, respectively. See "Non-GAAP Measures" relating to footnoted non-GAAP measures reflected in this document. This MD&A contains certain forward-looking statements and information: see "Forward-Looking Information and Statements".*

### *Fund Description*

Pembina Pipeline Income Fund is among the predominant issuers in the Canadian energy infrastructure trust sector. Pembina's network of conventional liquids feeder pipelines, and growing presence in the oil sands and midstream sectors, provide an integral service to the western Canadian energy industry. This balanced portfolio of long-life energy infrastructure assets supports the stability and sustainability of the Fund.

Pembina Pipeline Income Fund, an unincorporated open-ended trust, pays monthly cash distributions to Unitholders, if, as and when determined by the Board of Directors of Pembina Pipeline Corporation. Pembina's publicly traded securities trade on the Toronto Stock Exchange under the symbols: PIF.UN - Trust Units and PIF.DB.B - 7.35% convertible debentures. Pembina's corporate head office is located in Calgary, Alberta.

### *Fund Strategy*

Pembina's principal objective is to provide a stable stream of distributions to Unitholders while pursuing opportunities for enhancement through accretive growth. Pembina believes the most prudent manner to achieve this objective is to maintain and develop assets around its hydrocarbon-liquids services business in western Canada. Pembina plans to further develop this business through the continuous improvement and ongoing expansion of its asset base and the acquisition of quality energy infrastructure assets. To Pembina, "quality" means assets that are imbued with inherent competitive advantages, which are under long-term contract with credit-worthy customers, and either service or are in close proximity to long-life and economic hydrocarbon reserves. This strategy is intended to generate stable or increasing per-unit cash distributions to Pembina's Unitholders over the long-term.

Pembina's business is structured in three key segments: Conventional Pipelines, Oil Sands & Heavy Oil Infrastructure and Midstream & Marketing.

The primary objective for Pembina's conventional pipeline assets is safe, reliable operations and the maintenance of operating margin contribution while pursuing opportunities for throughput and revenue enhancement. Margins are maintained through the use of toll management, strict adherence to operating cost controls and asset rationalization. Pembina strives to attract new business to its conventional pipeline systems by offering cost-effective, competitively-positioned and reliable transportation services.

Pembina has successfully leveraged its uniquely positioned infrastructure and operating knowledge in the oil sands and intends to continue to pursue future opportunities in this key sector. Pembina's existing oil sands assets, and those currently under development, offer fully contracted and long-term returns which are designed to provide a secure stream of stable cash flow. The further expansion of Pembina's business interests in this area is a priority.

The Midstream & Marketing business consists of Pembina's 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility and the wholly-owned terminalling, storage and hub services currently operated, or under development, on several of Pembina's conventional pipeline systems. Pembina anticipates that the further expansion of midstream services over segments of its conventional assets will produce significant benefits to both pipeline customers and to Unitholders of the Fund. This strategy serves to both expand the range of services offered to customers and to extend the economic life of Pembina's conventional asset base, with substantial revenue enhancement potential.

## Results from Operations

| HIGHLIGHTS[1]<br>*(in millions of dollars, except where noted)* | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 | % Change |
|---|---|---|---|
| Average throughput - conventional (mbbls/d) | **459.0** | 459.4 | (0.1) |
| Contracted capacity - oil sands (mbbls/d) | **525.0** | 525.0 | – |
| Total throughput and contracted volumes (mbbls/d) | **984.0** | 984.4 | – |
| Capital expenditures | **95.2** | 88.7 | 7.3 |
| Revenue[2] | **106.3** | 96.4 | 10.3 |
| Operating expenses | **35.1** | 31.2 | 12.5 |
| Net operating income [3] | **71.2** | 65.2 | 9.2 |
| General & administrative expense | **9.4** | 6.7 | 40.3 |
| Interest expense on long-term debt | **8.2** | 7.2 | 13.9 |
| Net earnings | **32.6** | 33.9 | (3.8) |
| Cash flow from operations | **59.0** | 46.9 | 25.8 |
| Cash distributions to Unitholders | **47.8** | 42.1 | 13.5 |
| $ Per Trust Unit | **$0.3600** | $0.3300 | 9.1 |

1 This first quarter 2008 Interim Report to Unitholders reports unaudited results of the Fund for the three months ended March 31, 2008 and comparative unaudited results for the three months ended March 31, 2007.
2 Net of product purchases of $36.5 million in the first quarter of 2008 and $16.6 million in the first quarter of 2007.
3 Refer to "Non-GAAP Measures" below.

### Conventional Pipelines

| *(in millions of dollars, except where noted)* | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 | % Change |
|---|---|---|---|
| Average throughput (mbbls/d) | **459.0** | 459.4 | (0.1) |
| Revenue | **$ 67.1** | $ 62.0 | 8.2 |
| Operating expenses | **27.3** | 24.1 | 13.3 |
| Net operating income [1] | **39.8** | 37.9 | 5.0 |
| Capital expenditures | **16.0** | 23.0 | (30.4) |
| Operating expenses ($/bbl) | **0.62** | 0.55 | 12.7 |
| Average revenue ($/bbl) | **1.53** | 1.40 | 9.3 |

1 Refer to "Non-GAAP Measures" below.

Pembina's conventional pipelines transported an average of 459,000 bbls/d during the first quarter of 2008, consistent with the first quarter of 2007.

Of the total throughput for the quarter, 435,300 bbls/d were transported on the Alberta systems. March volumes on these systems of approximately 445,000 bbls/d were the highest they have been in the previous 12-month period . Receipts from recent connections on both the Peace and Drayton Valley pipeline systems continue to ramp up. The Nisku connections to the Drayton Valley system performed well late in the first quarter and exited March with throughput of approximately 20,000 bbls/d. The $22 million product segregation facilities on the Peace pipeline system came on-stream at the end of the first quarter. Similar facilities on the Drayton Valley system came on-stream in the third quarter of 2007. Pembina anticipates that these product segregation facilities will contribute to the maintenance of the stream quality and optimization of product pricing for customers.

The British Columbia (BC) gathering pipelines transported 28,600 bbls/d during the first three months of 2008, down 8 percent from the same period of 2007. Pembina's Western system transported 23,700 bbls/d during the quarter, down 10 percent from the same period of 2007, due in part to restrictions at a third party delivery point. Pembina entered into a four year toll agreement with one of two primary shippers on the Western system during the first quarter of 2008 and is awaiting approval of this negotiated settlement from the British Columbia Utilities Commission (BCUC). For further discussion, see "New Developments and Outlook".

During the first quarter of 2008, Pembina's conventional systems generated revenue of $67.1 million, up from $62.0 million from a year earlier. The Alberta systems generated revenue of $57.2 million during the quarter which was 6 percent higher than the first quarter of 2007. Average revenue per barrel on the Alberta systems was $1.44 during the first quarter and was up 6 cents per barrel from the average for the same period of 2007. This increase was the result of toll adjustments that were implemented on certain systems in January and February of this year.

**Oil Sands & Heavy Oil Infrastructure**

| *(in millions of dollars, except where noted)* | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 | % Change |
|---|---|---|---|
| Average throughput (mbbls/d) [1] | **525.0** | 525.0 | – |
| Revenue | **$ 15.6** | $ 14.5 | 7.6 |
| Operating expenses | **6.0** | 5.0 | 20.0 |
| Net operating income [2] | **9.6** | 9.5 | 1.1 |
| Capital expenditures | **76.4** | 65.4 | 16.8 |
| Operating expenses ($/bbl) [3] | **0.24** | 0.18 | 33.3 |
| Average revenue ($/bbl) [3] | **0.63** | 0.53 | 18.9 |

[1] Contracted capacity. Actual average throughput was 272,332 bbls/d in the first quarter of 2008.
[2] Refer to "Non-GAAP Measures" below.
[3] Calculation uses actual average throughput.

Pembina's oil sands infrastructure consists of: the Syncrude Pipeline (formerly AOSPL) which provides dedicated service to Syncrude, the world's largest crude oil producer from oil sands; the Cheecham Lateral pipeline which delivers synthetic crude oil to a facility near Cheecham Alberta; and, the Horizon Pipeline, which will provide dedicated service from Canadian Natural Resource Limited's (CNRL) Horizon Project, located 70 kilometres north of Fort McMurray, to Edmonton, Alberta, which is expected to come into service in mid-2008.

The fully contracted Syncrude Pipeline transported an average of 272,332 bbls/d during the quarter, 10 percent lower than the first quarter of 2007. This pipeline has a transportation capacity of 389,000 bbls/d and is fully contracted to the Syncrude owners. The Syncrude Pipeline generated revenue of $14.4 million during the quarter.

The Cheecham Lateral has a capacity of 136,000 bbls/d and is fully contracted to shippers. This pipeline generated $1.2 million of revenue during the first quarter of 2008.

Revenue on both of these pipelines is contracted to recover operating costs and earn a return on invested capital, therefore is not impacted by actual pipeline throughput.

Pembina is nearing completion of the final construction phase of the Horizon Pipeline and has commenced facilities commissioning. Pembina is firmly on track to have the Horizon Pipeline available for service July 1, 2008. The Horizon Pipeline will have an ultimate capacity of 250,000 bbls/d and will provide fully-contracted, exclusive transportation service to CNRL's Horizon oil sands project.

**Midstream & Marketing Business**

| *(in millions of dollars, except where noted)* | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 | % Change |
|---|---|---|---|
| Revenue [1] | **$ 23.6** | $ 19.9 | 18.6 |
| Operating expenses | **1.8** | 2.1 | (14.3) |
| Net operating income [2] | **21.8** | 17.8 | 22.5 |
| Capital expenditures | **2.8** | 0.3 | 833.3 |

[1] Net of $36.5 million in product purchase expense for the first quarter 2008 and $16.6 million in the first quarter of 2007.
[2] Refer to "Non-GAAP Measures" below.

Pembina's Midstream & Marketing business consists of its 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility and its wholly-owned terminalling, storage and hub services currently operated on several of its conventional pipeline systems.

Since the start up of this business, Pembina has experienced substantial growth resulting in another material increase in cash flow contribution during the quarter. Pembina's midstream business continues to exhibit strong aggregate performance with revenue and net operating income generated of $23.6 million and $21.8 million, respectively, during the first quarter of 2008, representing a 19 percent and 23 percent increase over the same quarter of 2007.

Pembina's 50 percent interest in the fully contracted Fort Saskatchewan Ethylene Storage Facility generates stable, long-term returns that are independent of capacity utilization and operating expenses. Variables that have the potential to impact certain elements of this business include, but are not limited to, pipeline volume and relative and absolute product pricing. Pembina does not assume any material commodity price or speculative risk in conducting this business and Pembina endeavors to diversify its revenue sources in this unit to enhance stability in results.

### Expenses

During the first quarter of 2008, operating expenses totaled $35.1 million, up from operating expenses incurred during the same period of 2007 of $31.2 million. Pembina's conventional pipelines incurred operating costs of $27.3 million during the first three months of 2008, up from $24.1 million incurred during the comparable period in 2007. On a per barrel of throughput basis, operating expenses on the conventional systems averaged 0.62 cents for the quarter compared to 0.55 cents during the same quarter of 2007. Approximately 50 percent of this increase is related to one time maintenance work completed in the quarter, with the remainder being associated with various increases in property taxes, power and field costs.

General and administrative expenses (G&A) of $9.4 million were recorded during the first three months of 2008, $2.7 million higher than the previous year. G&A expenses have risen in response to a substantial increase in construction activities, competitive employment pressures which has led to the introduction of additional short-term and long-term incentive programs in recent years, and an overall increase in staffing levels to support ongoing business along with the pursuit of growth opportunities. Pembina expects G&A expenditures to approximate 11.8 percent of net operating income in 2008, consistent with 2007.

### Cash Distributions

It is the Fund's principal objective to provide Unitholders with stable cash distributions over time. As a result, not all cash available for distribution is distributed to Unitholders. The Fund pays cash distributions on a monthly basis to Unitholders of record on the last calendar day of each month. Distributions are payable on the 15th day of the month following the record date.

Distributable cash is a non-GAAP measure that the Fund uses to manage its business and to assess future cash requirements that impact the determination of future distributions to Unitholders. The Fund defines distributable cash as cash flow from operations less pension and post retirement benefits net of pension contributions, net changes in non-cash working capital, trust unit based compensation expense and amortization of financing fees. The impact of these items is excluded in the calculation of distributable cash as it adjusts for timing differences throughout the year.

The following table sets forth the recalculation of cash flow from operations to certain distributable cash and distributed cash measures.

| *(in thousands of dollars, except where noted)* | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 |
|---|---|---|
| Cash flow from operations | **$ 59,034** | $ 46,907 |
| Add/(deduct): | | |
| Employee future benefits expense | **(945)** | (1,348) |
| Employee future benefits contributions | **1,000** | |
| Changes in non-cash working capital | **(8,043)** | 2,583 |
| Other | **(268)** | (477) |
| Distributable cash[1] | **50,778** | 47,665 |
| Increase in distribution reserve | **(2,985)** | (5,567) |
| Distributed cash[1] | **$ 47,793** | $ 42,098 |
| Distributable cash[1] per Trust Unit (before reserve) | **$ 0.3823** | $ 0.3717 |
| Distributed cash per Trust Unit[1] | **$ 0.3600** | $ 0.3300 |
| Diluted distributed cash to Unitholders per Trust Unit[1] | **$ 0.3530** | $ 0.3219 |

[1] Refer to "Non-GAAP Measures" below.

During the first quarter of 2008, the Fund declared distributions of $0.36 per Trust Unit, or $47.8 million in aggregate, compared to $0.33 per Trust Unit, or $42.1 million in aggregate, paid in the first quarter of 2007. Under Canadian tax laws, a component of the Fund's cash distributions are taxable in the hands of the Unitholder, with the remaining portion a return of capital, unless held in a tax-deferred account. Pembina estimates that 85 percent of the distributions declared in 2008 will be taxable and 15 percent will be a return of capital for Canadian tax purposes. For purposes of calculating the capital gains upon disposition of the Trust Units, the amount considered a return of capital will reduce the Unitholders' adjusted cost base of each Trust Unit for Canadian tax purposes. Pembina's distributions are subject to current domestic tax laws which require a withholding tax from distribution income to non-residents of Canada.

The table below shows the Fund's cash distributions paid relative to cash flow from operations and net earnings for the periods indicated. See also "New Developments and Outlook" and "Risk Factors" below for further information regarding the sustainability of cash distributions.

| *(in thousands of dollars, except where noted)* | **3 Months Ended March 31, 2008** | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Cash flow from operations | **$ 59,034** | $ 189,540 | $ 143,860 | $ 112,360 |
| Net earnings | **32,572** | 142,305 | 88,885 | 70,409 |
| Distributed cash | **47,793** | 178,870 | 142,285 | 113,482 |
| Excess (shortfall) of cash flow from operations over distributed cash | **11,241** | 10,670 | 1,575 | (1,122) |
| Excess (shortfall) of net earnings over distributed cash | **(15,221)** | (36,565) | (53,400) | (43,073) |
| Cumulative notional reserve[1] | **$ 34,036** | $ 31,052 | $ 21,022 | $ 15,128 |

1 Refer to "Non-GAAP Measures" below.

Pembina maintains a notional reserve in order to ensure stability over economic and industry cycles and to absorb the impact of material one-time events. Therefore, not all available cash is distributed to Unitholders but instead a portion of the Fund's distributable cash is used to reduce bank indebtedness. Historical cash distributions compared to cash flow from operations shows excess cash flow in every period except 2005. The shortfall in 2005 was due to a prepaid pension contribution made by the Fund in the amount of $13.3 million and due to changes in non-cash working capital. As at December 31, 2005, a cumulative notional reserve of $15.1 million remained after funding the shortfall. Cash distributions to Unitholders are greater than net earnings as the Fund does not consider it necessary to retain non-cash depreciation that has been deducted in the determination of net earnings. Pembina generally does not expect the earning capacity of the Fund's existing assets to erode or to be replaced provided they are properly maintained, such maintenance costs are deducted in determining net earnings. Asset additions increase the earning capacity of the Fund and have historically been financed in either the debt or equity markets and are not dependent on cash flow from existing assets.

The Fund's payout ratio for the three months ended March 31, 2008 was 94 percent, 6 percent higher than the same period in the prior year. Pembina estimates that the full year payout ratio in 2008 will approximate 86 percent, lower than the full year payout ratio of 95 percent in 2007. Pembina calculates the payout ratio as the percentage of distributable cash, prior to distribution reserve adjustments, that is distributed to Unitholders. See "Non-GAAP Measures" below.

### Liquidity and Capital Resources

At March 31, 2008, Pembina's bank facilities consisted of an unsecured $500 million revolving credit facility and a $30 million operating line of credit. On July 24, 2007, the revolving credit facilities were increased from $230 million to $500 million for a period of five years to July 24, 2012. In addition, the $30 million operating facility was extended to July 24, 2008. There are no repayments due over the term. At March 31, 2008, Pembina had $311.3 million drawn leaving $218.7 million of undrawn capacity on the $530 million of established bank facilities. Borrowings bear interest at either prime lending rates or are based on bankers acceptances plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from 0.50 percent to

1.50 percent. Other debt includes $85.1 million in fixed rate Senior Secured Notes due 2017, $175 million in fixed rate Senior Unsecured Notes due 2014, $75 million of Floating Rate Senior Unsecured Notes due 2009 and $200 million in fixed rate Senior Unsecured Notes due 2021. At March 31, 2008, Pembina had long-term debt (excluding deferred financing fees) of $846.5 million. This long-term debt, together with $46.2 million of outstanding convertible debentures, resulted in a ratio of total debt to total enterprise value of 28.4 percent compared to a ratio of 26.2 percent as at December 31, 2007.

During the first quarter, $7.6 million in net debt financing costs were recorded compared with $7.2 million during the same period of 2007. Interest rate exposure on Pembina's floating rate debt is managed utilizing interest rate swap instruments. At March 31, 2008, Pembina had an interest rate swap in place on a principal amount of $60 million at an average rate of 4.75 percent and an average term to maturity of 0.2 years, maturing in June 2008. The mark-to-market value of the swap represented an unrealized loss of $0.1 million at March 31, 2008.

Pembina considers the maintenance of investment grade credit agency ratings as critical to its ongoing ability to access capital markets on attractive terms. The rating systems employed by the agencies referenced below recognize the stable profile of Pembina's assets and financial results and the sustainability of the per Trust Unit distributions of the Fund. The Dominion Bond Rating Service Ltd. (DBRS) stability rating system measures the volatility and sustainability of distributions per Trust Unit. DBRS has assigned Pembina Pipeline Income Fund a STA-2 (low) stability rating. DBRS's stability rating scale is from STA-1 to STA-7, with STA-1 representing the highest rating possible, and STA-7 the lowest. Pembina Pipeline Corporation, the Fund's primary operating subsidiary, is also rated by DBRS, which has assigned a senior secured debt rating of 'BBB High' and a 'BBB' senior unsecured debt rating. Standard & Poor's (S&P) rates Pembina Pipeline Corporation as follows: 'BBB' long-term corporate credit with a stable outlook, 'BBB plus' senior secured debt and 'BBB' senior unsecured debt. S&P also rates the Fund and has a current rating of SR-2. According to S&P's rating system, which rates distributable cash on a scale of SR-1 to SR-7, SR-2 rated funds are considered to have very high stability and debt instruments rated BBB have adequate protection parameters.

### Contractual Obligations

The Fund is committed to annual payments as follows:

| ($ millions) | **Payments Due By Period** | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1 - 3 years** | **4 - 5 years** | **After 5 years** |
| Office and vehicle leases | $ 13.4 | $ 3.3 | $ 5.1 | $ 3.9 | $ 1.1 |
| Long-term debt | 846.5 | 6.5 | 97.7 | 329.5 | 412.8 |
| Convertible debentures | 46.2 | | 46.2 | | |
| Construction commitments | 70.5 | 37.5 | 16.5 | 16.5 | |
| Total contractual obligations | $ 976.6 | $ 47.3 | $ 165.5 | $ 349.9 | $ 413.9 |

Pembina is contractually committed to the construction and the operation of the Horizon Pipeline. Construction of the Horizon Pipeline is underway and Pembina anticipates the pipeline to be available for service on July 1, 2008. Pembina currently projects the cost to be $400 million, with $329.5 million of that amount expended to March 31, 2008, $37.5 million expected to be spent in the last nine months of 2008 and $33 million expected to be spent in later years. Pembina expects to utilize its undrawn bank facilities to finance the remaining costs of the Horizon Pipeline.

| **Capital Expenditures ($ millions)** | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 |
|---|---|---|
| Development capital | | |
| Conventional pipelines | **$ 16.0** | $ 23.0 |
| Oil Sands & Heavy Oil infrastructure | **76.4** | 65.4 |
| Midstream & Marketing business | **2.8** | 0.3 |
| Total development capital | **$ 95.2** | $ 88.7 |

Pembina expended $95.2 million on capital projects during the first quarter of 2008, up from $88.7 million expended during the first quarter of 2007. Capital expenditures for the conventional systems of $16.0 million during the quarter related to $6.6 million for new connections and upgrades, $5.6 million for the Peace system product segregation facilities, $3.2 million for the Western system corrosion and pipeline inspection programs and $0.6 million for Drayton Valley system product segregation facilities. Oil sands infrastructure spending totaled $76.4 million in the first quarter, up from the $65.4 million expended during the same period of 2007. Of the oil sands related capital expenditures during the first quarter of 2008, $75.1 million was related to Horizon Pipeline construction and $1.3 million was invested in upgrades on the Syncrude Pipeline. Spending in the midstream business segment of $2.8 million year-to-date related mainly to operations equipment. Capital expenditures are financed utilizing Pembina's existing credit facilities.

### Trust Unit and Convertible Debenture Information

Since June 30, 2007, Pembina has prorated its DRIP to zero as its bank facilities offer a lower cost of financing for the Fund as compared to equity issuances. Pembina expects that it has sufficient bank facilities to fund current projects but it may resume the DRIP in the future should it desire to raise new equity.

The Fund's Trust Units, together with the one remaining series of convertible debentures, are traded on the Toronto Stock Exchange.

| | **April 28, 2008** | March 31, 2008 | March 31, 2007 |
|---|---|---|---|
| Trust Units Outstanding | **132,864,561** | 132,815,734 | 128,246,780 |
| Average Daily Volume (Units per day) [1] | **196,440** | 208,300 | 242,000 |
| Unit Trading Price ($/Unit) | **$ 17.24** | $ 16.30 | $ 15.86 |
| Principal Amount of Debentures Outstanding ($millions) | **$ 48.0** | $ 48.3 | $ 75.8 |
| 7.35% Convertible Debentures Trading Price [2] | **$ 137.50** | $ 133.00 | $ 127.00 |
| Total Market Value of Securities Outstanding ($millions) | **$ 2,357.0** | $ 2,229.0 | $ 2,133.0 |
| Pembina's convertible debentures are convertible to Trust Units at conversion prices of ($/Unit): | | | |
| 7.35% Convertible Debentures maturing December 31, 2010 | | $ 12.50 | |

[1] Based on the 20 trading days from April 1 to April 28, 2008, inclusive.

[2] Full conversion to Trust Units of the remaining principal amount of the debenture issue as at April 28, 2008 would result in the issuance of 3.8 million Trust Units.

As at March 31, 2008, non-resident holdings in the Fund totaled approximately 19 percent. This level is within the 49 percent restriction on non-resident ownership in the Fund imposed by Pembina's Declaration of Trust and is consistent with the requirements of the Income Tax Act (Canada).

### Critical Accounting Estimates and Changes in Accounting Principles and Practices

The Canadian Institute of Chartered Accountants issued three new accounting standards; Handbook Section 1535 "Capital Disclosures", Handbook Section 3862 "Financial Instruments - Disclosure" and Handbook Section 3863 "Financial Instruments - Presentation" effective January 1, 2008. The Fund adopted these standards effective January 1, 2008 and as a result has included additional disclosures, both qualitative and quantitative, on financial instruments and on the management of capital in the financial statements and notes in this 2008 interim report.

There were no changes in Pembina's other critical accounting estimates and practices that affected the disclosure of or the accounting for its operations for the quarter ended March 31, 2008. Such critical accounting estimates are presented in Management's Discussion and Analysis for the year ended December 31, 2007.

### New Developments and Outlook

Pembina continues to work with its customers on new connections and upgrades on a number of its conventional systems. The development of a proposed pipeline project targeting Nipisi and Peace River heavy oil producers progressed during the quarter. Pembina currently estimates that this project will cost approximately $360 million, which includes a 22,000 bbls/d diluent pipeline and a 100,000 bbls/d heavy oil pipeline. Pembina expects to use a combination of new and existing infrastructure to provide competitive transportation services to and from these areas. Pembina is continuing to work with various shippers towards obtaining firm commitments, and targets a potential start-up date in 2010. However, at this time, no definitive agreements or commitments relating to this project are in place and there is no assurance the project will proceed.

During the first quarter of 2008, Pembina reached a four year agreement with Husky Energy Inc. for volumes transported on the Western System to Prince George, BC and is awaiting a decision from the British Columbia Utilities Commission regarding tolls applicable to volumes transported on the Western system to Kamloops, BC.

In its midstream business, Pembina expects future growth resulting from the addition of truck terminalling services and enhanced throughput on the Peace system effective July 1, 2008.

Pembina's reputation for consistent results and growing distributions is supported by its continued success in developing new services and executing on opportunities. Pembina's established record of accomplishment reflects the quality of its strategically located assets, prudent expansions and additions to its asset portfolio, the introduction of new and innovative services and strong stakeholder relationships. Ongoing anticipated future growth in all three of Pembina's business segments lends confidence in Pembina's continuing ability to meet its distribution objective going forward.

**Risk Factors**

Management has identified the primary risk factors that could potentially have a material impact on the financial results and operations of the Fund. Such risk factors are presented in Management's Discussion and Analysis for the year ended December 31, 2007, and in the Fund's Annual Information Form for the year ended December 31, 2007. See "Additional Information" below.

## Additional Information

Additional information relating to Pembina Pipeline Income Fund, including the Fund's Annual Information Form and financial statements, can be found on the Fund's profile on the SEDAR website at www.sedar.com.

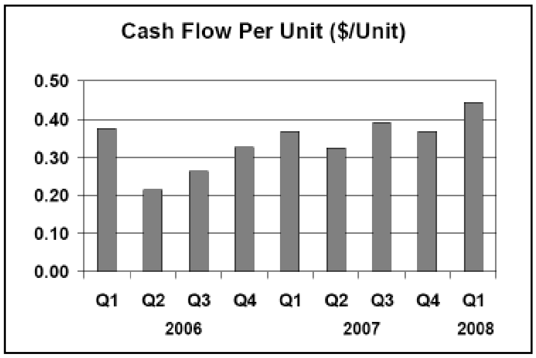
## Selected Quarterly Information

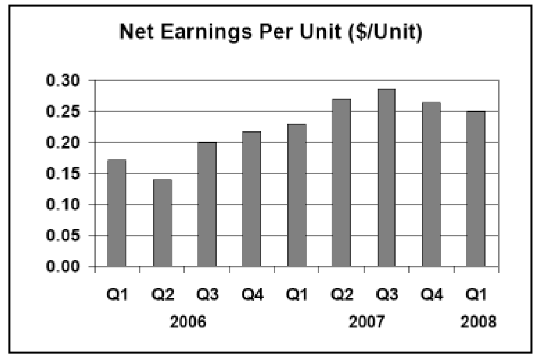
| | 2008 | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|---|
| (in thousands of dollars, except where noted) | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue[1] | 106,284 | 101,234 | 98,716 | 93,426 | 96,359 | 88,062 | 85,326 | 80,924 | 81,506 |
| Operating expenses | 35,095 | 35,885 | 31,833 | 30,718 | 31,192 | 32,933 | 29,570 | 28,132 | 29,970 |
| EBITDA[2] | 59,916 | 54,518 | 58,660 | 53,676 | 56,271 | 49,626 | 50,261 | 39,554 | 44,732 |
| Cash flow from operations | 59,034 | 48,788 | 51,666 | 42,180 | 46,907 | 41,111 | 32,430 | 26,055 | 44,264 |
| Net earnings | 32,572 | 34,981 | 37,903 | 35,492 | 33,929 | 27,231 | 24,563 | 16,940 | 20,150 |
| Net earnings per Trust Unit ($/Unit): | | | | | | | | | |
| Basic | 0.25 | 0.26 | 0.29 | 0.27 | 0.27 | 0.22 | 0.20 | 0.14 | 0.17 |
| Diluted | 0.24 | 0.26 | 0.28 | 0.27 | 0.26 | 0.22 | 0.20 | 0.14 | 0.17 |
| Distributed cash[2] | 47,793 | 47,684 | 46,198 | 42,890 | 42,098 | 37,687 | 36,461 | 34,567 | 33,570 |
| Distributed cash per Trust Unit[2] | | | | | | | | | |
| Basic | 0.3600 | 0.3600 | 0.3500 | 0.3300 | 0.3300 | 0.3000 | 0.2950 | 0.2850 | 0.2850 |
| Diluted | 0.3530 | 0.3521 | 0.3393 | 0.3211 | 0.3219 | 0.2956 | 0.2902 | 0.2803 | 0.2786 |
| Trust Units outstanding (thousands): | | | | | | | | | |
| Weighted average (basic) | 132,758 | 132,454 | 131,994 | 129,966 | 127,568 | 125,625 | 123,576 | 121,289 | 117,784 |
| Weighted average (diluted) | 137,196 | 137,243 | 136,850 | 135,274 | 135,206 | 132,789 | 131,502 | 130,036 | 129,692 |
| End of period | 132,816 | 132,542 | 132,065 | 131,388 | 128,247 | 126,218 | 124,262 | 122,030 | 119,816 |

1 Net of product purchases.
2 Refer to "Non-GAAP Measures" below.

Net earnings of $32.6 million were recorded during the first quarter of 2008, compared to $33.9 million and $20.2 million over the same periods in 2007 and 2006. The 4% decline in net earnings over the same period in 2007 relates to a decline in the future income tax reduction of $2.8 million. Net operating income continues to grow at $71.2 million in the first quarter of 2008, compared to $65.2 million and $51.5 million over the same periods in 2007 and 2006 representing a substantial increase of 9 percent and 38 percent, respectively, due to the addition of midstream operations as well as toll increases on conventional pipeline systems.

Pembina's stable operations typically produce limited variability in quarterly results. However, continued growth in Pembina's underlying asset base and business operations has generally resulted in increased revenues, expenses and cash flows over the last nine quarters. Variations in this trend result from one-time events and expected seasonal factors which impact pipeline receipts and operating expenses, occurring most frequently during the second quarter of each year. Such events and factors include, but are not limited to, regularly scheduled facilities maintenance, road bans and weather-related impact on receipts and spending patterns.




## Non-GAAP Measures

*Throughout this MD&A the Fund and Pembina use the term "distributable cash" to refer to the amount of cash that is to be available for distribution to the Fund's Unitholders. Distributable cash is used as a financial measure as it adjusts cash flow from operations for timing differences in non-cash working capital and for non-cash items charged to earnings that the Fund considers to be unavailable for distribution. "Distributable cash" is not a measure recognized by Canadian generally accepted accounting principles (GAAP). Therefore, distributable cash of the Fund may not be comparable to similar measures presented by other issuers, and investors are cautioned that distributable cash should not be construed as an alternative to net earnings, cash flow from operations or other measures of financial performance calculated in accordance with GAAP as an indicator of the Fund's performance.*

*Further, the use of terms "EBITDA" (earnings before interest, taxes, depreciation and amortization), "net operating income" (revenues less operating expenses), "payout ratio" (the Fund's cash distributions to Unitholders divided by its distributable cash), "notional reserve" (the difference between the Fund's distributable cash and the cash distributions to Unitholders in a given period) and "enterprise value" (the Fund's market capitalization plus long-term debt) are not recognized under Canadian GAAP. Management believes that, in addition to earnings, EBITDA, net operating income, payout ratio and enterprise value are useful measures. They provide an indication of the results generated by the Fund's business activities prior to consideration of how activities were financed, how the results are taxed and measured and, in the case of enterprise value, the aggregate value of the Fund. Notional reserve indicates investors should be cautioned, however, that EBITDA, net operating income, payout ratio, notional reserve and enterprise value should not be construed as an alternative to net earnings, cash flows from operating activities or other measures of financial performance determined in accordance with GAAP as an indicator of the Fund's performance. Furthermore, these measures may not be comparable to similar measures presented by other issuers.*

## Forward-Looking Information and Statements

*The information contained in this press release contains certain forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical* trends*. In some cases, forward-looking statements and information can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "targets", "believes", "strives", "estimates", "continue", "designed", "objective", "maintain", "schedule", "endeavor" and similar expressions. In particular, this MD&A contains forward-looking statements and information with respect to: future stability and sustainability of cash distributions to Unitholders; ongoing utilization and expansions of and additions to Pembina's asset base; future acquisitions and growth and growth potential in Pembina's conventional pipelines, oil sands & heavy oil infrastructure and midstream operations; potential revenue and cash flow enhancement; maintenance of operating margins; continued high levels of oil and gas activity and increased oil and gas production in proximity to our pipelines and other assets (which could be affected by, among other things, possible changes to applicable* *royalty and tax regimes); additional throughput potential on additional connections and other initiatives on our conventional system; expected project start-up and construction dates; future distributions, payout ratios and taxation of distributions; future financing capability and sources; negative credit rating adjustments; the expansion of midstream services; and the future tax treatment of the Fund and income trusts. These statements are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties, including but not limited to, the impact of competitive entities and pricing, approvals by industry partners, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, the regulatory environment and decisions, tax laws and treatment, fluctuations in operating results, the ability of Pembina to raise sufficient capital (or to raise capital on favourable terms) to complete future projects and satisfy future commitments, construction delays and labour and material shortages, and certain other risks detailed from time to time in the Fund's public disclosure documents. The Fund believes the expectations reflected in these forward-looking statements and information are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct. Undue reliance should not be placed on these forward-looking statements and information as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements and information. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Such forward-looking statements and information are expressly qualified by the above statements. The Fund does not undertake any obligation to publicly update or revise any forward-looking statements or information contained herein, except as required by applicable laws.*

# consolidated balance sheets
(unaudited)

(In thousands of dollars)

| | March 31 2008 | Dec. 31 2007 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | **$** | $ 16,736 |
| Accounts receivable and other | **54,121** | 56,177 |
| | **54,121** | 72,913 |
| Property, plant and equipment | **1,603,842** | 1,524,887 |
| Goodwill and other | **357,354** | 358,212 |
| Derivative financial instruments | **12,284** | 10,796 |
| | **$ 2,027,601** | $ 1,966,808 |
| **Liabilities and Unitholders' Equity** | | |
| Current liabilities: | | |
| Bank indebtedness | **$ 379** | $ |
| Accounts payable and accrued liabilities | **70,069** | 59,485 |
| Distributions payable to Unitholders | **15,938** | 15,905 |
| Current portion of long-term debt | **6,539** | 6,422 |
| | **92,925** | 81,812 |
| Long-term debt | **832,300** | 772,364 |
| Convertible debentures | **46,190** | 47,702 |
| Asset retirement obligations | **63,180** | 62,236 |
| Future income taxes | **94,485** | 93,957 |
| | **1,129,080** | 1,058,071 |
| Unitholders' equity: | | |
| Trust Units (note 6) | **1,324,601** | 1,320,692 |
| Deficit | **(435,111)** | (419,890) |
| Accumulated other comprehensive income | **9,031** | 7,935 |
| | **898,521** | 908,737 |
| | **$ 2,027,601** | $ 1,966,808 |

*See accompanying notes to the consolidated financial statements*

# consolidated statements of earnings and deficit

(Unaudited)

(In thousands of dollars, except per Trust Unit amounts)

| | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 |
|---|---|---|
| Revenues: | | |
| Conventional pipelines | **$ 67,097** | $ 61,985 |
| Oil Sands & Heavy Oil infrastructure | **15,598** | 14,478 |
| Midstream & Marketing business | **60,040** | 36,485 |
| | **142,735** | 112,948 |
| Expenses: | | |
| Operations | **35,095** | 31,192 |
| Product purchases | **36,451** | 16,589 |
| General and administrative | **9,372** | 6,721 |
| Depreciation and amortization | **17,126** | 16,006 |
| Accretion on asset retirement obligations | **944** | 408 |
| Internalization of management contract | **1,859** | 558 |
| Other | **42** | 1,617 |
| | **100,889** | 73,091 |
| Earnings before interest and taxes | **41,846** | 39,857 |
| Interest on long-term debt | **(8,240)** | (7,181) |
| Interest on convertible debentures | **(898)** | (1,425) |
| Earnings before taxes | **32,708** | 31,251 |
| Income tax expense (reduction) | **136** | (2,678) |
| Net earnings | **32,572** | 33,929 |
| Deficit, beginning of period | **(419,890)** | (383,325) |
| Distributed cash | **(47,793)** | (42,098) |
| Deficit, end of period | **$ (435,111)** | $ (391,494) |
| Earnings per Trust Unit | | |
| Basic | **$ 0.25** | $ 0.27 |
| Diluted | **$ 0.24** | $ 0.26 |

*See accompanying notes to the consolidated financial statements*

# consolidated statement of comprehensive income

(Unaudited)

(In thousands of dollars)

| | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 |
|---|---|---|
| Net earnings for the period | **$ 32,572** | $ 33,929 |
| Other comprehensive income: | | |
| Unrealized gain on derivative instruments designated as cash flow hedges, net of tax of $0.4 million | **1,096** | 7,782 |
| Total comprehensive income | **$ 33,668** | $ 41,711 |
| Accumulated other comprehensive income: | | |
| Opening balance, net of tax of $2.9 million | **$ 7,935** | $ 5,048 |
| Unrealized gain on derivative instruments designated as cash flow hedges, net of tax of $0.4 million | **1,096** | 7,782 |
| Balance, end of period, net of tax of $3.3 million | **$ 9,031** | $ 12,830 |

*See accompanying notes to the consolidated financial statements*

# consolidated statements of cash flows

(Unaudited)

(In thousands of dollars)

| | **3 Months Ended March 31, 2008** | 3 Months Ended March 31, 2007 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net earnings | **$ 32,572** | $ 33,929 |
| Items not involving cash: | | |
| Depreciation and amortization | **17,126** | 16,006 |
| Accretion on asset retirement obligations | **944** | 408 |
| Future income tax expense (reduction) | **136** | (2,678) |
| Employee future benefits expense | **945** | 1,348 |
| Trust Unit based compensation expense | **268** | 277 |
| Other | | 200 |
| Employee future benefits contributions | **(1,000)** | |
| Changes in non-cash working capital | **8,043** | (2,583) |
| Cash flow from operations | **59,034** | 46,907 |
| Financing activities: | | |
| Bank borrowings | **61,615** | 47,006 |
| Repayment of senior secured notes | **(1,562)** | (1,453) |
| Issue of Trust Units on exercise of options | **2,129** | 1,561 |
| Issue of Trust Units under Distribution Reinvestment Plan | | 23,177 |
| Distributions to Unitholders - current year | **(31,855)** | (27,990) |
| Distributions to Unitholders - prior year | **(15,905)** | (12,622) |
| | **14,422** | 29,619 |
| Investing activities: | | |
| Capital expenditures | **(95,168)** | (81,452) |
| Changes in non-cash working capital | **4,597** | 1,043 |
| | **(90,571)** | (80,409) |
| Change in cash | **(17,115)** | (3,883) |
| Cash, beginning of period | **16,736** | 1,861 |
| Bank indebtedness, end of period | **$ (379)** | $ (2,022) |
| Other cash disclosures: | | |
| Interest on long-term debt paid | **$ (10,636)** | $ (9,951) |
| Interest capitalized | **$ (3,522)** | $ (1,178) |

*See accompanying notes to the consolidated financial statements*

Notes to the consolidated financial statements:
(Tabular amounts in thousands of dollars, except per Trust Unit amounts)

**1. Significant accounting policies:**

The interim consolidated financial statements of Pembina Pipeline Income Fund ("the Fund") have been prepared by management in accordance with Canadian generally accepted accounting principles for non rate-regulated entities. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2007 with the exception of accounting policies relating to newly issued accounting standards by the Canadian Institute of Chartered Accountants. The disclosure provided below is incremental to that included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Fund's consolidated financial statements and the notes thereto for the year ended December 31, 2007. Certain of the prior period's comparative figures have been reclassified to conform with the current period's presentation.

Effective January 1, 2008, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, Financial Instruments - Disclosures (“Section 3862”) and Handbook Section 3863, Financial Instruments - Presentation (“Section 3863”). Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 established standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and valuation of the Fund’s financial instruments. The Fund has included disclosures recommended by these new standards in Note 4 of the financial statements.

Effective January 1, 2008, the Fund adopted the new recommendation of CICA Handbook Section 1535, Capital Disclosures (“Section 1535”). Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. It requires the disclosure of information about; the entity’s objectives, policies and processes for managing capital, qualitative information about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. The Fund has included disclosures recommended by Section 1535 in Note 5 of the financial statements.

*International Financial Reporting Standards*

The Canadian Institute of Chartered Accountants (“CICA”) Accounting Standards Board (AcSB) announced that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective January 1, 2011. IFRS will require increased financial statement disclosures. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed to assess the impact on the Fund’s existing accounting policies, the impact on business processes and the impact on information systems requirements and internal controls. The Fund is currently beginning to assess the impact of this AcSB announcement on its financial statements and business processes.

**2. Internalization of management contract:**

Effective June 30, 2006, the Fund acquired all of the outstanding common shares of Pembina Management Inc. (Manager), the manager of the Fund. Total consideration for the transaction consisted of an initial cash payment of $6 million and a contingent deferred payment payable in 2009 that is linked to future growth in distributable cash per Trust Unit of the Fund. If the future cumulative distributable cash in the period from January 1, 2006, to December 31, 2008 does not exceed $3.42 per Trust Unit ($1.14 per Trust Unit per year), the deferred amount is zero. Every approximate 10 cent per Trust Unit increase in cumulative distributable cash over $3.42 per Trust Unit results in a $1 million increase in purchase price to a maximum of $15 million, which is converted into notional Trust Units based on the weighted-average trading price of the Trust Units for the 20 trading days prior to June 30, 2006 of $15.87 (the "closing price"). The purchase price will also be adjusted by the distributions payable on the notional Trust Units for the period from January 1, 2006 to December 31, 2008, and the change in the value of the Fund's Trust Units from the closing price. No further payments under the share purchase agreement are payable until 2009, however assuming the total 2008 distributable cash is similar to that for the three months ended March 31, 2008, and using the March 31, 2008 closing price of $16.30 per Trust Unit on the TSX as the "closing price" and assuming monthly distributions for the remainder of 2008 remain at the level of distribution for the month of March 2008, the potential deferred payment would be $12.1 million of which, $4.7 million has been expensed in 2007 and $1.9 million has been expensed at March 31, 2008.

**3. Business segments:**

The Fund conducts its operations through three operating segments: conventional pipelines, oil sands & heavy oil infrastructure and midstream & marketing business.

Conventional pipelines consists of the tariff based operations of pipelines and related facilities to deliver crude oil, condensate and natural gas liquids in Alberta and British Columbia.

Oil sands & Heavy Oil Infrastructure consists of the Syncrude Pipeline, the Cheecham Lateral and the Horizon Pipeline, which is currently under construction. As at March 31, 2008, the Syncrude Pipeline and the Cheecham Lateral were operational. This operating segment consists of pipelines and related facilities to deliver synthetic crude oil produced from oil sands under long-term cost of service arrangements.

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

The financial results of the business segments are as follows:

| (in thousands of dollars) | Conventional Pipelines | Oil Sands & Heavy Oil Infrastructure | Midstream & Marketing Business | Total |
|---|---|---|---|---|
| **Three months ended March 31, 2008** | | | | |
| Revenues: | | | | |
| Pipeline transportation | $ 67,097 | $ 15,598 | $ | $ 82,695 |
| Terminalling, storage and hub services | | | 60,040 | 60,040 |
| Revenue before expenses | 67,097 | 15,598 | 60,040 | 142,735 |
| Expenses: | | | | |
| Operations | 27,266 | 5,988 | 1,841 | 35,095 |
| Product purchases | | | 36,451 | 36,451 |
| General and administrative | 9,035 | 337 | | 9,372 |
| Depreciation and amortization | 11,701 | 3,028 | 2,397 | 17,126 |
| Accretion on asset retirement obligations | 892 | 52 | | 944 |
| Internalization of management contract | 1,859 | | | 1,859 |
| Other | 42 | | | 42 |
| | 50,795 | 9,405 | 40,689 | 100,889 |
| Earnings before interest and taxes | $ 16,302 | $ 6,193 | $ 19,351 | $ 41,846 |
| Property, plant and equipment[1] | $ 797,021 | $ 665,833 | $ 140,988 | $ 1,603,842 |
| Goodwill and other | $ 206,628 | $ 28,300 | $ 122,426 | $ 357,354 |

[1] Included in property, plant and equipment are assets under construction for the Horizon Pipeline of $329.5 million.

| (in thousands of dollars) | Conventional Pipelines | Oil Sands & Heavy Oil Infrastructure | Midstream & Marketing Business | Total |
|---|---|---|---|---|
| **Three months ended March 31, 2007** | | | | |
| Revenues: | | | | |
| Pipeline transportation | $ 61,985 | $ 14,478 | $ | $ 76,463 |
| Terminalling, storage and hub services | | | 36,485 | 36,485 |
| Revenue before expenses | 61,985 | 14,478 | 36,485 | 112,948 |
| Expenses: | | | | |
| Operations | 24,116 | 4,997 | 2,079 | 31,192 |
| Product purchases | | | 16,589 | 16,589 |
| General and administrative | 6,394 | 327 | | 6,721 |
| Depreciation and amortization | 10,783 | 2,984 | 2,239 | 16,006 |
| Accretion on asset retirement obligations | 382 | 26 | | 408 |
| Internalization of management contract | 558 | | | 558 |
| Other | 1,617 | | | 1,617 |
| | 43,850 | 8,334 | 20,907 | 73,091 |
| Earnings before interest and taxes | $ 18,135 | $ 6,144 | $ 15,578 | $ 39,857 |
| Property, plant and equipment[1] | $ 764,587 | $ 437,960 | $ 121,606 | $ 1,324,153 |
| Goodwill and other | $ 206,320 | $ 28,300 | $ 126,073 | $ 360,693 |

[1] Included in property, plant and equipment are assets under construction for the Horizon Pipeline of $108.7 million.

**4. Financial Risk Management and Financial Instruments:**

*Financial risk*

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

*Credit risk*

Credit risk is the risk of financial loss to the Fund if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Fund's cash and cash equivalents and receivables and from counterparties on its interest rate and power cost swaps. The carrying amount of the financial assets and liabilities and the fair value of the long-term debt, convertible debentures and swaps represents the maximum credit exposure to the Fund.

The Fund manages credit risk for its cash and cash equivalents by maintaining bank accounts with Schedule 1 banks. The Fund has minimal credit risk related to its receivables as a majority of these amounts are with large customers in the oil and gas industry and are subject to the terms of the Fund's shipping rules and regulations or pursuant to contracts. Balances are payable on the 25th day of the following month. This date coincides with the date on which oil and gas companies receive payment from industry partners and customers. Historically, Pembina has collected its receivables in full with an excess of 90% collected on the due date. Pembina also maintains lien rights on the oil and NGL's that are in the Fund's custody during the transportation of such products on the pipeline as well as the right to offset for single shipper operations. Therefore, the risk of non-collection is considered to be extremely low and no allowance for doubtful accounts has been made.

Additionally, credit risk is mitigated through established credit management techniques, including conducting financial and other assessments for all new shippers on its systems and regular reviews of the credit status of current shippers to establish and monitor the counterparty's creditworthiness, to set exposure limits and to obtain financial assurances such as letters of credit and guarantees when warranted. The Fund's review includes external ratings for customers, where available, and in other cases, detailed financial assessments and reviews which generates a credit rating based on financial ratios. Purchase limits are established for each customer representing the maximum open amount without requiring approval from the Risk Management Committee. These limits are reviewed on an ongoing basis as deemed required.

The Fund minimizes credit risk on its derivative financial instruments (interest rate and power swap) by entering into risk management transactions only with entities that have investment grade credit ratings.

*Liquidity risk*

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

| (in thousands of dollars) | Payment Due By Period | | | | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | 6 months or less | 6 - 12 months | 1 - 2 years | 2 - 5 years | >5 years |
| Accounts payable and accrued liabilities | $ 69,330 | $ 55,278 | $ 3,430 | $ 10,622 | $ | $ |
| Distributions payable to Unitholders | 15,938 | 15,938 | | | | |
| Long-term debt (excluding financing fees) | 846,478 | 3,210 | 3,329 | 89,590 | 337,592 | 412,757 |
| Convertible debentures | 46,190 | | | | 46,190 | |
| | $ 977,936 | $ 74,426 | $ 6,759 | $ 100,212 | $ 383,782 | $ 412,757 |

*Market risk*

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

The Fund uses derivative financial instruments to manage exposure to interest rates, power costs and crude oil and natural gas liquids. The Fund does not use financial instruments for trading or speculative purposes.

Contracts used to manage market risk generally consist of swap contracts. These contracts consist of an interest rate swap and power swap hedges designated as cash flow hedges (see Note 16 in the December 31, 2007 Annual Report). These cash flow hedges are used to manage the potential increase or decrease in the price of non-transmission power charges and interest expense on floating rate debt instruments.

The Fund's credit facilities as at March 31, 2008 consisted of an unsecured $500 million revolving credit facility and a $30 million operating line of credit. Pembina had $311.3 million drawn leaving $218.7 of undrawn capacity. At March 31, 2008, the Fund was exposed to changes in interest rates on $326.3 million of bank borrowings.

| Liquidity and Capital Resources<br>(in thousands of dollars) | **March 31<br>2008** | Dec. 31<br>2007 |
|---|---|---|
| Variable rate debt | | |
| Bank debt | **$ 311,332** | $ 250,000 |
| Senior unsecured notes | **75,000** | 75,000 |
| Variable rate debt swapped to fixed | **(60,000)** | (60,000) |
| Total variable rate debt outstanding (average rate of 4.30%) | **326,332** | 265,000 |
| Fixed rate debt | | |
| Senior unsecured notes | **375,000** | 375,000 |
| Senior secured notes | **85,146** | 86,708 |
| Variable rate debt swapped to fixed | **60,000** | 60,000 |
| Total fixed rate debt outstanding (average rate of 5.89%) | **520,146** | 521,708 |
| Convertible debentures | **46,190** | 47,702 |
| Total debt and debentures outstanding | **892,668** | 834,410 |
| Unutilized debt capacity | **218,668** | 280,000 |

The Fund has fixed the interest rate on $60 million of variable rate bank borrowings through an interest rate swap. The interest rate swap had a fair value of a $0.1 million unrealized loss as at March 31, 2008. Including the interest swap, interest rates on $520.1 million in senior secured and unsecured notes have been fixed, leaving roughly 38% of Pembina's outstanding debt exposed to interest rate fluctuations. A 0.25 percent change in short-term interest rates would have an annualized impact of $0.8 million on net cash flows.

The Fund is also exposed to changes in the cost of power. At March 31, 2008, the Fund has fixed the price of non-transmission power charges by way of price swap contracts which expire in 2010. The fair value of these contracts at March 31, 2008, was an unrealized gain of $12.4 million. The power swap hedges the first 16 MW of power consumption each day on the conventional pipeline systems. Pembina's current consumption is not greater than 16 MW a day and hence considers its power costs fully hedged. Power costs on our oil sands systems are not hedged and as revenue on these pipelines is contracted to recover operating costs, Pembina's net operating income from oil sands is not impacted by fluctuations in power costs. Assuming a portion of the power was not hedged, every $5 change in the Alberta pool price will increase operating expenses by approximately $0.7 million.

Terminalling, storage and hub services are dependent upon the ability of Pembina to take advantage of pricing differentials for various qualitative factors in the crude oil and NGL streams. These differentials are based primarily on product density and sulphur content and are subject to normal market forces. Pembina actively monitors the market conditions and the stream content and quality to ensure that it is not subject to undue risk or exposure should there be significant change in either price or quality factors. The Fund does have some commodity swap hedges in place but the swaps have an insignificant value and are recorded in current period earnings. The Fund documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions for all financial instruments designated as cash flow hedges. The Fund also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Pembina does not have any currency risk as all transactions are done in Canadian dollars.

*Fair values*

The Fund classifies its financial instruments as follows: cash is designated as "held for trading" and is measured at carrying value which approximates fair value due to the short term nature of these instruments. Accounts receivable and other are designated as "loans and receivables" and are measured at amortized cost. The derivative financial instruments are designated as cash flow hedges and are measured at fair value using market rates (values disclosed above). Accounts payable and accrued liabilities, distributions payable, long-term debt and convertible debentures are designated as "other liabilities" and recorded at amortized cost. The fair values for the long-term debt are determined by discounting the future contractual cash flows under the note agreements at discount rates which represent borrowing rates available for loans with similar terms and conditions. The fair value of debentures are determined based on available market information. Disclosure of the fair value of financial instruments was presented in Note 16 in the December 31, 2007 Annual Report.

**5. Capital Risk Management:**

The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide a stable stream of distributions to Unitholders that is sustainable over the long-term. The Fund distributes all of its net cash flow, subject to retaining an appropriate distribution reserve, financing, making repayments on debt and, if applicable, funding future removal and site restoration reserves.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of its underlying asset base and based on requirements arising from significant capital development activities. The Fund, upon approval from its Board of Directors, will balance its overall capital structure through new Trust Unit or debt issuances as required. Additionally, the Fund can resume its Premium Distribution Plan, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP") should it desire to raise new equity.

The Fund 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 Fund funds its operating commitments, short-term capital spending as well as its distributions to Unitholders through this cash flow, while new borrowing and equity issuances are reserved for the support of specific significant development activities. The capital structure of the Fund consists of Trust Units, deficit and accumulated other comprehensive income. Long-term debt is comprised of bank credit facilities, senior secured and unsecured notes and convertible debentures. The Fund monitors its ratio of total debt (as shown on the balance sheet) to total enterprise value (market value of trust units and debentures) quarterly and remains satisfied that the leverage currently employed in the Fund's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base.

The Fund is not subject to externally imposed capital requirements and the Fund's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

Note 6 of these interim financial statements demonstrates the change in Trust Units for the first quarter of 2008 and Note 12 in the December 31, 2007 Annual Report provides further information regarding the characteristics of the Trust Units outstanding.

**6. Trust Units:**

The Fund is authorized to create and issue an unlimited number of Trust Units.

| | **Trust Units** | **Amount** |
|---|---:|---:|
| Balance, January 1, 2008 | 132,541,536 | 1,320,692 |
| Exercise of Trust Unit options | 147,798 | 2,129 |
| Debenture conversions | 126,400 | 1,512 |
| Contributed surplus | | 268 |
| Balance, March 31, 2008 | 132,815,734 | $ 1,324,601 |

The net earnings per Trust Unit are based on earnings available to Unitholders and the weighted average Trust Units outstanding for the period. The earnings available to Unitholders for the first quarter of 2008 was $32.6 million (2007 - $33.9 million). The weighted average Trust Units outstanding for the first quarter of 2008 were 132,758,000 Units (2007 - 127,568,000).

The diluted earnings per Trust Unit are based on net earnings and the weighted average Trust Units outstanding adjusted for the dilutive effect of convertible debentures and employee Trust Unit options. The diluted net earnings for the first quarter of 2008 were $33.2 million (2007 - $35.4 million). In computing diluted earnings per Trust Unit, 4,438,000 Trust Units (2007 - 7,639,000) were added to the weighted average Trust Units outstanding for the first quarter of 2008 for the dilutive effect of both convertible debentures and employee Trust Unit options. Basic and diluted earnings per Trust Unit for the first quarter of 2008 are $0.25 and $0.24, respectively, compared to $0.27 and $0.26, respectively, in the first quarter of 2007. At March 31, 2008, 3,855,850 options were outstanding, of which 2,447,550 were exercisable (March 31, 2007 - 1,934,608) at a weighted average price of $14.14 (March 31, 2007 - $13.57).

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## Pembina Pipeline Income Fund INVESTOR INFORMATION

**Exchange Listing and Trading Symbols:**

The Toronto Stock Exchange
Trust Units Symbol: **PIF.UN**
7.35% Convertible Debentures Symbol: **PIF.DB.B**

**Trustee, Registrar and Transfer Agent:**

Computershare Trust Company of Canada
Shareholder Communications:
1-800-564-6253

**Corporate Office:**

700 – 9th Avenue S.W.
P.O. Box 1948
Calgary, Alberta T2P 2M7
Telephone: (403) 231-7500
Fax: (403) 237-0254

**Investor Information:**

e-mail: investor-relations@pembina.com

Telephone: (403) 231-7500
1-888-428-3222
Fax: (403) 691-7356

Website: www.pembina.com

**Quarterly Results Webcast:**

A live internet broadcast of Pembina's First Quarter 2008 Results conference call is scheduled for April 30, 2008 at 2:00 p.m. Calgary (4:00 p.m. Eastern, 1:00 p.m. Pacific). Those wishing to access the webcast are invited to visit Pembina's website located at www.pembina.com, or the host site at www.newswire.ca/webcast. An archive of the call will be available on-line for 90 days following the broadcast date.

**Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan[1]:**

Pembina offers a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan to eligible Unitholders of Pembina Pipeline Income Fund.

The Plan allows participants an opportunity to:

- reinvest distributions into Trust Units at a 5 percent discount to a weighted average market price, under the distribution reinvestment component of the Plan; or,
- realize 2 percent more cash on their distributions, under the premium distribution component of the Plan;
- eligible Unitholders may also make optional Trust Unit purchases at the weighted average market price.

A brochure, detailing administration of the Plan and eligibility and enrolment information, is available on-line on Pembina's web site located at www.pembina.com, or call 1-888-428-3222 to receive a copy by mail. Unitholders wishing to enroll in the Plan are asked to contact their broker, investment dealer, financial institution or other nominee through which the Trust Units are held.

[1] As of June 30, 2007, Pembina has prorated its DRIP to zero as it prefers not to raise further equity under this plan at this time.

This document contains forward-looking information and statements that involve risks and uncertainties. Such information, although considered reasonable by Pembina at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to risks associated with operations, such as loss of market, regulatory matters, environmental risks, industry competition, and ability to access sufficient capital from internal and external sources. See "Forward-Looking Information and Statements" presented in the Management's Discussion and Analysis contained in this document for additional information, which applies to all forward-looking information and statements contained in this document.